

EXHIBIT A

1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE DISTRICT OF DELAWARE

3 - - -
4 IN RE: ADAMS GOLF, INC. :
5 SECURITIES LITIGATION :
6

7 X

8 ORAL DEPOSITION

9 OF

10 CHRISTOPHER M. JAMES

11 Friday, August 11, 2006

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13 Oral deposition of CHRISTOPHER M.
14 JAMES, held at the offices of AKIN GUMP
15 STRAUSS HAUER & FELD, LLP, 590 Madison Avenue,
16 New York, New York, commencing at 8:30 a.m.,
17 reported by Pamela Harrison, RMR, CRR, CSR and
18 Notary Public.

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22

23 RSA/VERITEXT COURT REPORTING COMPANY
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Philadelphia, PA 19103
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1	A. Yes.	11:06:41a	1	or computer programs or documents of any nature	11:09:54a
2	Q. Any other indices that you used	11:06:42a	2	reflect any of the work you did in response or	11:10:03a
3	in this case?	11:06:44a	3	in connection with the rebuttal report of	11:10:06a
4	A. Yes. In response to the report	11:06:44a	4	Mr. Miller?	11:10:08a
5	of Mr. Miller, I believe his rebuttal report, I	11:06:51a	5	A. I don't have any other -- I	11:10:15a
6	also undertook the analysis utilizing the S&P	11:06:57a	6	don't have any other paper or -- I reviewed the	11:10:22a
7	small cap and the S&P small cap together with	11:07:02a	7	output of a market model analysis using the S&P	11:10:29a
8	the -- his peer group.	11:07:10a	8	small cap and the peer group from the data that	11:10:38a
9	Q. Am I missing something or is	11:07:19a	9	Mr. Miller provided --	11:10:44a
10	this something I haven't seen yet?	11:07:21a	10	Q. Okay.	11:10:46a
11	A. I don't know whether it's been	11:07:25a	11	A. -- that I reviewed that output	11:10:48a
12	produced to you, but it was something that I did	11:07:26a	12	on a computer screen. I don't believe -- I	11:10:51a
13	subsequent to my rebuttal report because it was	11:07:29a	13	don't think I printed it out.	11:10:54a
14	in response to Mr. Miller's.	11:07:34a	14	Q. Okay. Could you do so for us,	11:10:55a
15	MR. COLLINS: Okay.	11:07:39a	15	please.	11:10:57a
16	MS. REED: I haven't seen it.	11:07:40a	16	A. I believe I can recreate it.	11:11:03a
17	BY MR. COLLINS:	11:07:46a	17	Q. If you would, please.	11:11:05a
18	Q. Okay. So that work you did in	11:07:46a	18	How long would it take you to	11:11:09a
19	response to Mr. Miller's rebuttal; correct?	11:07:50a	19	recreate it?	11:11:10a
20	A. That's right.	11:07:54a	20	A. The estimation wouldn't take	11:11:19a
21	Q. Any other work you did in	11:07:54a	21	long.	11:11:21a
22	response to Mr. Miller's rebuttal?	11:07:57a	22	Q. Could you ask someone to do	11:11:21a
23	A. Yes. When I reviewed his	11:08:01a	23	that, say, at the next break or lunch and have	11:11:22a
24	rebuttal report, I investigated and prepared	11:08:08a	24	it sent to us so we can take a look at it before	11:11:25a
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1	responses to -- I thought about -- and that's	11:08:19a	1	you go home?	11:11:29a
2	what I meant by prepared -- I thought about	11:08:25a	2	A. I'll take it under advisement.	11:11:29a
3	responses to and tried to assess the validity of	11:08:30a	3	I would have to ask the attorneys what the	11:11:31a
4	some of the issues that he raised.	11:08:36a	4	protocol is, and if those people are available.	11:11:34a
5	I also undertook an analysis,	11:08:39a	5	I'll certainly try to look into it.	11:11:38a
6	which I believe is in -- which has been marked	11:08:44a	6	Q. Good. Thank you.	11:11:40a
7	as Exhibit 339 and 340, which addresses an	11:08:47a	7	And what is the nature of that	11:11:50a
8	issue that Mr. Miller raised in his report	11:08:53a	8	material that's on the computer that you just	11:11:51a
9	regarding his contention that the price	11:08:56a	9	described?	11:11:55a
10	decline principally in late July was	11:09:00a	10	A. Just so you are clear, one issue	11:11:55a
11	attributable to issues concerning the gray	11:09:05a	11	that I wanted to address was whether the	11:12:00a
12	market.	11:09:11a	12	conclusions that I reached with respect to the	11:12:03a
13	Q. Anything else?	11:09:13a	13	statistical significance of the days that I	11:12:08a
14	A. I think that's -- as I sit here,	11:09:15a	14	identify, those conclusions would differ if I	11:12:14a
15	that's a summary of the things that I did.	11:09:19a	15	used an S&P small cap as opposed to the NASDAQ,	11:12:20a
16	Q. Okay. Now, the work that you	11:09:21a	16	or if I used the peer group as opposed to the	11:12:26a
17	did in response to or in connection with the	11:09:23a	17	industry index in combination with the NASDAQ or	11:12:30a
18	Miller rebuttal report, that work is reflected	11:09:27a	18	S&P small cap.	11:12:35a
19	in part by Exhibits 339 and 340, if I heard you	11:09:34a	19	Q. Okay. And by the peer group,	11:12:36a
20	correctly.	11:09:39a	20	you are referring to what?	11:12:42a
21	A. Yes, some of it -- some of the	11:09:39a	21	A. Mr. Miller's peer group.	11:12:44a
22	analysis that I just referred to is contained in	11:09:42a	22	Q. And what Mr. Miller was using	11:12:49a
23	339, 340.	11:09:46a	23	was the peer group that appeared in the company	11:12:51a
24	Q. Okay. Any other pieces of paper	11:09:50a	24	proxy statement?	11:12:55a

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1	Q. Adams declined some, and the S&P	11:19:10a	1	A. I used the peer group return as	11:22:08a
2	small cap and Callaway declined more -- is that	11:19:14a	2	reported by Mr. Miller in his rebuttal report.	11:22:13a
3	right so far? -- on or about July 23rd.	11:19:20a	3	My recollection is I could come	11:22:18a
4	A. If you said Callaway and the	11:19:23a	4	close but not exactly match the peer returns	11:22:21a
5	peer group?	11:19:26a	5	by taking the -- the peer group return by	11:22:26a
6	Q. Yes.	11:19:27a	6	taking a value weighted average of the	11:22:31a
7	A. I think you may have said --	11:19:27a	7	individuals within the group.	11:22:37a
8	Q. You know what, let me start	11:19:29a	8	Q. What do you mean by "value	11:22:39a
9	again. You are quite right.	11:19:30a	9	weighted average"?	11:22:42a
10	Am I reading this correctly	11:19:31a	10	A. I was responding to the question	11:22:43a
11	that on July 23rd both Callaway and the peer	11:19:33a	11	you just asked, was it a value weighted average	11:22:44a
12	group went down sharply and roughly in tandem?	11:19:36a	12	or an equally weighted average of the returns.	11:22:49a
13	A. Yes. I think if you go to the	11:19:42a	13	I can come close to, if I use	11:22:54a
14	next exhibit, it might be easier.	11:19:45a	14	value weights, come close to the returns that	11:22:56a
15	Q. Okay.	11:19:49a	15	he had.	11:22:57a
16	A. 340.	11:19:49a	16	Q. That's fine. And I'm just	11:22:58a
17	Q. Okay.	11:19:50a	17	asking you what you did in using the value	11:23:00a
18	A. Which has the dates and the	11:19:51a	18	weights, what process did you go through and	11:23:01a
19	price decline. So on 7/23/1998, Adams is down	11:19:57a	19	what specifically, specifically what value did	11:23:03a
20	13 percent -- about roughly 13 percent; Callaway	11:20:05a	20	you weight.	11:23:07a
21	is down 33 percent; and Miller's peer group is	11:20:08a	21	A. The market value of the common	11:23:09a
22	down 28.2 percent.	11:20:12a	22	stock.	11:23:12a
23	Q. I see.	11:20:14a	23	THE WITNESS: And I apologize,	11:23:20a
24	Now, Miller's peer group, do	11:20:19a	24	but I need to take a short break.	11:23:20a
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1	you know whether it included Callaway?	11:20:22a	1	MR. COLLINS: Off the record.	11:23:24a
2	A. It did.	11:20:23a	2	(A recess was had from	11:33:46a
3	Q. And was the peer group -- the	11:20:24a	3	11:23 a.m. to 11:33 a.m.; and then the	11:33:46a
4	peer group was comprised of how many companies?	11:20:26a	4	proceedings continued as follows:)	11:33:46a
5	A. I believe it was -- it consisted	11:20:37a	5	BY MR. COLLINS:	11:33:46a
6	of Callaway, Teardrop, Aldila --	11:20:42a	6	Q. Exhibit 339.	11:33:46a
7	THE COURT REPORTER: Callaway,	11:20:54a	7	A. Okay.	11:33:48a
8	comma Teardrop?	11:20:54a	8	Q. Why did you do this just for the	11:33:49a
9	THE WITNESS: It might help,	11:20:54a	9	month of July?	11:33:56a
10	it's on the top line on the first page of	11:20:54a	10	A. Because Mr. Miller indicated in	11:33:59a
11	Mr. Miller's report.	11:21:02a	11	his rebuttal report that it is his conjecture	11:34:05a
12	BY MR. COLLINS:	11:21:04a	12	that the price decline, particularly in the	11:34:11a
13	Q. Okay.	11:21:04a	13	latter part of July, was attributable to, I	11:34:15a
14	A. I can read these off, but it may	11:21:04a	14	think he refers to it as leakage regarding gray	11:34:20a
15	be helpful for the court reporter just to look	11:21:08a	15	market activities.	11:34:26a
16	at them.	11:21:10a	16	Q. Is there something about Exhibit	11:34:27a
17	It would be Callaway, Teardrop,	11:21:10a	17	339 or Exhibit 340 that leads you to question	11:34:28a
18	Aldila, Coastcast, Arnold Palmer, and Golden	11:21:14a	18	that conclusion on his part?	11:34:33a
19	Bear.	11:21:18a	19	A. I think that -- yes, I think	11:34:35a
20	Q. Now, as you used the peer group	11:21:27a	20	that this analysis demonstrates, using his data,	11:34:41a
21	on Exhibits 339 and 340, was it a weighted group	11:21:41a	21	that the decline in Adams Golf during this	11:34:43a
22	or was it unweighted, based on the size or the	11:21:51a	22	period of time was certainly in line with the	11:34:51a
23	market caps or some other characteristics of the	11:22:01a	23	decline experienced by its -- the firms	11:34:55a
24	companies making up the peer group?	11:22:06a	24	identified by Mr. Miller as being peers to Adams	11:35:01a

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1 Golf, and that consistent with the discussion in 11:35:07a
 2 my report, the decline appears to be a result 11:35:18a
 3 principally of softness in the golf industry as 11:35:25a
 4 reflected by the earnings miss and discussion of 11:35:29a
 5 difficulties in the market that Callaway 11:35:36a
 6 disclosed, and then the peer group -- I think 11:35:44a
 7 Coastcast has a news article during that same 11:35:48a
 8 period of time indicating same weakness in 11:35:53a
 9 product demand, which I think is consistent with 11:36:00a
 10 the announcement of Callaway, since Coastcast is 11:36:06a
 11 a major supplier to Callaway. 11:36:09a
 12 Q. Did you undertake -- the 11:36:15a
 13 analysis of these various stock prices, did you 11:36:20a
 14 do any work taking it out beyond July 31st? 11:36:25a
 15 A. No. I -- you mean -- 11:36:33a
 16 Q. Did you run the chart beyond 11:36:37a
 17 July 31st? 11:36:39a
 18 A. No, I just focused on the dates 11:36:41a
 19 in -- the dates that he identified as being 11:36:43a
 20 associated with price declines in late July that 11:36:53a
 21 he contends may be associated with information 11:36:59a
 22 disclosures regarding -- or leakage of 11:37:03a
 23 information regarding, say, purchase orders by 11:37:07a
 24 Costco. 11:37:10a

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1 Q. And in that regard you are 11:37:16a
 2 referring to the information he has -- perhaps 11:37:17a
 3 other places as well, but you are referring to 11:37:21a
 4 the information he has in Paragraph 22(A) of his 11:37:23a
 5 rebuttal report? 11:37:26a
 6 A. 22(A), yes. 11:37:28a
 7 Q. Now, how long ago did you 11:37:39a
 8 prepare exhibits or did you create the documents 11:37:41a
 9 that are now 339 and 340? 11:37:43a
 10 A. Within the last week. 11:37:49a
 11 Q. Did counsel ask you to do so? 11:37:55a
 12 A. No. 11:37:58a
 13 Q. Did you tell counsel you were 11:37:58a
 14 doing this? 11:38:00a
 15 A. Yes. 11:38:00a
 16 Q. Did you run any other charts 11:38:10a
 17 beyond 339 either within the last week or since 11:38:13a
 18 the rebuttal report? 11:38:18a
 19 A. I don't believe so. I don't 11:38:24a
 20 recall doing any. 11:38:26a
 21 Q. And did you undertake an 11:38:28a
 22 analysis of peer performance with respect to 11:38:30a
 23 August or September? 11:38:35a
 24 A. No, my focus was only on late -- 11:38:39a

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1 late July, is the period that he focuses in on 11:38:45a
 2 his report. 11:38:49a
 3 Just to add that he -- and the 11:38:51a
 4 other reason is that he has a chart, I believe 11:38:55a
 5 it's -- if you don't mind, I'll take it off. 11:39:00a
 6 (The witness takes the clip off 11:39:08a
 7 the document.) 11:39:10a
 8 BY MR. COLLINS: 11:39:10a
 9 Q. Please. 11:39:10a
 10 A. That is a -- that has a somewhat 11:39:15a
 11 different pegging in the sense that it's pegged 11:39:23a
 12 to 1. It's his Exhibit A. It's entitled ADGO 11:39:28a
 13 versus XLC(4), Adams Golf versus Comparable 11:39:35a
 14 Index. He carries it out to -- 12/23/1999 is 11:39:43a
 15 the last date. 11:39:55a
 16 Q. You are referring to the page 11:39:57a
 17 immediately after the page that says Exhibit A, 11:40:01a
 18 or are you referring to a later? 11:40:07a
 19 Which chart are you referring 11:40:17a
 20 to, please? 11:40:18a
 21 A. I know this is -- it doesn't 11:40:24a
 22 make the record look particularly good because 11:40:26a
 23 I'm holding something up, but it is this chart 11:40:30a
 24 (indicating), and I believe you are looking at 11:40:34a

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1 it. 11:40:36a
 2 MS. FOX: Let me just check 11:40:37a
 3 that. I'll come around and see whether 11:40:39a
 4 it's the same. 11:40:42a
 5 THE WITNESS: Just so you are 11:40:45a
 6 clear, there appears to be two charts 11:40:46a
 7 in his Exhibit A. One is -- it looks 11:40:48a
 8 like they are the same chart. One is 11:41:00a
 9 simply, in my version, a smaller 11:41:03a
 10 version of the other. 11:41:06a
 11 BY MR. COLLINS: 11:41:09a
 12 Q. Okay. Well, the chart -- 11:41:09a
 13 A. This you can identify -- 11:41:23a
 14 Q. Not a problem. 11:41:24a
 15 A. Okay. 11:41:26a
 16 Q. Do you see the page that says on 11:41:26a
 17 it Exhibit A? It's probably in your left hand. 11:41:28a
 18 A. Yeah, the problem I'm having is 11:41:35a
 19 that there are a number of pages that say 11:41:37a
 20 Exhibit A on it. Okay? Maybe we can make this 11:41:40a
 21 easier. 11:41:43a
 22 This is Exhibit A (indicating), 11:41:44a
 23 it only has Exhibit A on it. Then there is a 11:41:46a
 24 page that follows it which is a -- 11:41:50a

25 (Pages 94 to 97)

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1	MS. FOX: Comparables?	11:41:57a	1	including the following."	11:45:22a
2	THE WITNESS: Comparables. But	11:41:58a	2	That's on Paragraph 22 of his	11:45:27a
3	it's not pegged to 1. It has -- it's	11:42:00a	3	report.	11:45:28a
4	not -- the individual series are not	11:42:05a	4	Q. Okay. You are quite right.	11:45:29a
5	pegged to a particular number.	11:42:11a	5	Now, if I understand correctly,	11:45:31a
6	BY MR. COLLINS:	11:42:13a	6	Exhibits 339 and 340 include in the Miller's	11:45:39a
7	Q. Okay.	11:42:13a	7	peer group Teardrop, Aldila, Coastcast, and	11:45:46a
8	A. Okay?	11:42:14a	8	Callaway --	11:45:54a
9	That's followed by a smaller	11:42:17a	9	A. Right.	11:45:56a
10	version of the same chart and then data.	11:42:18a	10	Q. -- together with Arnold Palmer	11:45:56a
11	Okay?	11:42:22a	11	and Golden Bear.	11:45:59a
12	Q. Okay. I'm with you now.	11:42:22a	12	A. That is my understanding.	11:46:00a
13	A. Then following that is another	11:42:24a	13	Q. Okay.	11:46:01a
14	colored chart in my version that is referred to	11:42:30a	14	And it's your understanding	11:46:02a
15	as Exhibit A and it says Adams Golf versus	11:42:35a	15	that the Miller's peer group included Arnold	11:46:03a
16	Comparables indexed to 1 at 7/10/98. So it's	11:42:40a	16	Palmer and Golden Bear?	11:46:08a
17	similar to the chart that I prepared where there	11:42:46a	17	A. I would have to go back and	11:46:10a
18	is -- it's pegged at a particular point in	11:42:48a	18	check that.	11:46:12a
19	time. He's pegging to 1. I pegged to 16.	11:42:52a	19	Q. Well, it is what it is. You are	11:46:22a
20	Q. Just so we are clear, the last	11:42:58a	20	not responsible for what he included in Miller's	11:46:24a
21	document that you referred to is a chart that	11:43:01a	21	peer group, I'm just asking what you included in	11:46:29a
22	says "Exhibit A" on it and it follows a page	11:43:06a	22	yours. So let me just ask you.	11:46:31a
23	which gives information on the last line,	11:43:13a	23	In 339 and 340 you included in	11:46:33a
24	"19991231," for Adams and the small cap index,	11:43:24a	24	what you referred to as Miller's peer group or	11:46:37a
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1	Callaway, Teardrop, Aldila, and Coastcast?	11:43:33a	1	Miller peer group, you include Arnold Palmer	11:46:41a
2	A. Yes, but what will be	11:43:35a	2	and Golden Bear; correct?	11:46:44a
3	distinguishable from the other chart that has	11:43:38a	3	A. No, I think it would be	11:46:47a
4	similar information is that it should say up at	11:43:41a	4	incorrect to refer to that as my peer group. My	11:46:48a
5	the top Adams Golf, Inc., indexed to 1 on	11:43:43a	5	recollection is that --	11:46:51a
6	7/9/98, and then there are three asterisks.	11:43:47a	6	Q. Let me stop you. Yeah, let me	11:46:52a
7	Q. Okay. Great.	11:43:51a	7	stop you because I didn't mean to mislead you on	11:46:54a
8	Now, so I now know what	11:43:53a	8	the question.	11:46:57a
9	document you are referring to and I thank you.	11:43:58a	9	There is a reference on 339 to	11:46:57a
10	Do I understand that this chart	11:44:00a	10	Miller's peer group, and then there's a line	11:46:59a
11	that we are now referring to, which says	11:44:05a	11	that runs across this page, not that I as a	11:47:02a
12	indexed to 1, motivated you to prepare Exhibit	11:44:08a	12	color-blind person can read it, but there's a	11:47:05a
13	339 and 340?	11:44:17a	13	line that runs across this page for peer	11:47:08a
14	A. What -- not the chart -- not	11:44:21a	14	group.	11:47:11a
15	necessarily the chart itself, but the discussion	11:44:24a	15	A. That is Mr. Miller's peer	11:47:14a
16	in Mr. Miller's report regarding what he	11:44:30a	16	group.	11:47:16a
17	conjectures to be leakage regarding gray	11:44:47a	17	Q. Okay. Does that peer group	11:47:16a
18	marketing activity, particularly in the mid to	11:44:53a	18	include or exclude, as set forth on 339, Arnold	11:47:18a
19	late part of July. I believe he mentions that	11:44:57a	19	Palmer and Golden Bear?	11:47:23a
20	in his first report, and then he expands on it	11:45:02a	20	A. My recollection is that the peer	11:47:26a
21	in the current report by contending, as in	11:45:08a	21	group returns that were used in constructing 339	11:47:28a
22	Paragraph 22: "In fact, information concerning	11:45:14a	22	and 340 are the returns as reported in	11:47:36a
23	gray marketing activity which existed in the	11:45:17a	23	Mr. Miller's report.	11:47:43a
24	marketplace was available to various parties	11:45:20a	24	Q. You and I can argue about a	11:47:44a

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1 lot. Let's not argue about this. This is very 11:47:47a
 2 simple. 11:47:49a
 3 Whether it came from James, 11:47:50a
 4 Miller, McEvoy, Fox, Page 339, peer group, 11:47:54a
 5 does it include or does it exclude Arnold 11:48:00a
 6 Palmer and Golden Bear? 11:48:03a
 7 A. And the answer to that question 11:48:06a
 8 is I was unable to replicate exactly the returns 11:48:08a
 9 on his peer group by taking a value weighted 11:48:11a
 10 average of the returns of the companies that he 11:48:15a
 11 reports as part of the peer. As a result, and 11:48:18a
 12 to be able to use his own data, I did not 11:48:22a
 13 construct a peer group for purposes of preparing 11:48:27a
 14 339, 340. The best recollection -- my best 11:48:31a
 15 recollection is the peer group returns are as 11:48:36a
 16 reported in Mr. Miller's report. Okay? 11:48:39a
 17 Q. Okay. 11:48:43a
 18 A. So if he included or excluded 11:48:43a
 19 Palmer and Golden Bear, then they would be 11:48:49a
 20 included or excluded in the peer group return as 11:48:54a
 21 reported in 340 and 339, as best -- is my best 11:48:58a
 22 recollection. 11:49:04a
 23 Q. Okay. Now, before the break I 11:49:04a
 24 had asked you, if you would, to get delivered to 11:49:06a

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1 us during the course of the deposition the 11:49:09a
 2 material that's on your computer. Can I ask, 11:49:15a
 3 has that been accomplished? 11:49:18a
 4 A. It has not been accomplished as 11:49:19a
 5 of this point in time. 11:49:21a
 6 Q. Okay. I presume you've 11:49:22a
 7 consulted with counsel and you will be good 11:49:26a
 8 enough to supply that. Correct? 11:49:29a
 9 A. I will endeavor to try to supply 11:49:32a
 10 that. 11:49:34a
 11 Q. Okay. Thank you. 11:49:35a
 12 In time for us to talk about it 11:49:38a
 13 today; correct, sir? 11:49:39a
 14 A. Again, I will try to do that. I 11:49:44a
 15 -- first of all, I don't have my computer with 11:49:50a
 16 me; and second, the person then whom I would 11:49:52a
 17 call to obtain the data on which I did the 11:49:58a
 18 analysis is currently not available. So I am 11:50:04a
 19 endeavoring to undertake that. 11:50:08a
 20 Q. Thank you. 11:50:11a
 21 Well, I'll tell you what I'm 11:50:31a
 22 confused about because it's a pretty simple 11:50:32a
 23 matter. 11:50:34a
 24 A. Okay. 11:50:35a

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1 Q. I understand that you don't know 11:50:35a
 2 whether 339 and 340 include Arnold Palmer and 11:50:38a
 3 Golden Bear. Am I right so far? As you sit 11:50:43a
 4 here now, you don't remember whether those two 11:50:46a
 5 companies are included in peer group? 11:50:48a
 6 A. Right. 11:50:50a
 7 Q. But I thought I also heard you 11:50:51a
 8 say that peer group, as used in 339 and 340, 11:50:54a
 9 consist of whatever it is that Miller referred 11:50:59a
 10 to as peer group at some point in his report. 11:51:01a
 11 A. No, I think that's -- I 11:51:04a
 12 understand your confusion now. 11:51:06a
 13 My recollection is that I used 11:51:08a
 14 the return for the peer group as reported in 11:51:13a
 15 Mr. Miller. 11:51:17a
 16 Q. Fine. 11:51:18a
 17 A. In other words, he has a column 11:51:19a
 18 in his report that has the returns for the peer 11:51:23a
 19 group. Okay? However he calculated them. And 11:51:26a
 20 my recollection is that's what I utilized. 11:51:32a
 21 Q. Okay. Can you show me that 11:51:34a
 22 column you are referring to? 11:51:36a
 23 A. Yes. It's in his Exhibit -- 11:51:39a
 24 MS. REED: "A." 11:51:44a

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1 THE WITNESS: "A." 11:51:45a
 2 BY MR. COLLINS: 11:51:47a
 3 Q. Right. 11:51:47a
 4 A. Actually, Exhibit B -- 11:51:51a
 5 Q. Right. 11:51:58a
 6 A. -- you see peer group? 11:52:00a
 7 Q. I do. 11:52:04a
 8 A. My recollection is that's what I 11:52:05a
 9 utilized. 11:52:08a
 10 Q. Okay. Okay. Good. 11:52:09a
 11 Now, I think you said that 11:52:42a
 12 following the receipt of Mr. Miller's rebuttal 11:52:45a
 13 report, you used the S&P small cap together 11:52:47a
 14 with Miller's peer group and examined whether 11:52:54a
 15 your conclusions regarding statistical 11:53:01a
 16 significance with respect to particular days 11:53:03a
 17 was changed if those were the indices you used 11:53:08a
 18 as opposed to the indices that you had used 11:53:12a
 19 previously. Correct so far? 11:53:15a
 20 A. Yes. 11:53:17a
 21 Q. And when you did so, what did 11:53:20a
 22 you find? 11:53:23a
 23 A. My recollection is that the 11:53:24a
 24 conclusions regarding days of statistical 11:53:29a

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1	significance would be unaffected by utilizing	11:53:32a	1	A. For these purposes -- the	11:56:58a
2	the S&P small cap and the Miller peer group as	11:53:38a	2	purposes of these proceedings, I don't think it	11:57:01a
3	part of a market model.	11:53:50a	3	will make a difference.	11:57:03a
4	Q. With regard to NASDAQ, for	11:54:04a	4	Q. Okay. Good.	11:57:03a
5	example, the 17 percent was the explanatory	11:54:05a	5	You ran --	11:57:10a
6	power of NASDAQ? Is that what the 17 percent	11:54:08a	6	A. Just so you know, an R-squared	11:57:10a
7	was, with regard to daily returns?	11:54:14a	7	will always increase as you add explanatory	11:57:15a
8	A. The daily -- the amount of the	11:54:17a	8	variables. An adjusted R-squared is an	11:57:21a
9	daily variability explainable by changes in the	11:54:19a	9	R-squared that is adjusted for the number of	11:57:26a
10	NASDAQ was I believe 17 or 18 percent.	11:54:23a	10	explanatory variables and it will not always	11:57:29a
11	Q. Sure. Well, whatever, but can	11:54:27a	11	increase, so it's -- it utilizes a measure of	11:57:32a
12	we call that the -- how do you refer to that in	11:54:29a	12	the additional explanatory power, if you will,	11:57:38a
13	shorthand? Explanatory power?	11:54:34a	13	of adding explanatory variables.	11:57:41a
14	A. Let's use what -- the precise	11:54:38a	14	Q. The adjusted R-squared of NASDAQ	11:57:59a
15	terms, the R-squared.	11:54:40a	15	combined with the golf index you used was	11:58:09a
16	Q. Okay. Good.	11:54:42a	16	approximately equal to the adjusted R-squared of	11:58:16a
17	A. Adjusted R-squareds were, I	11:54:43a	17	using small cap plus Miller's peer group;	11:58:19a
18	believe, 17 or 18 percent.	11:54:48a	18	correct?	11:58:25a
19	Q. Perfect.	11:54:50a	19	A. Could she read it back to me,	11:58:28a
20	What were the adjusted	11:54:50a	20	please --	11:58:30a
21	R-squareds of the S&P small cap?	11:54:52a	21	Q. You know what, I just want to	11:58:31a
22	A. What I recall is the S&P small	11:54:56a	22	get over it, so let me just ask it again.	11:58:33a
23	cap and the industry peers, the explanatory	11:54:57a	23	You compared the adjusted	11:58:35a
24	power was virtually identical to the explanatory	11:55:05a	24	R-squareds of NASDAQ plus golf to the adjusted	11:58:37a
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1	power of the -- or the R-squareds of the model	11:55:08a	1	R-squareds of Miller peer plus S&P small cap;	11:58:45a
2	that I used.	11:55:13a	2	correct?	11:58:51a
3	Sorry. The R-squareds were	11:55:14a	3	A. Yes.	11:58:51a
4	virtually the same.	11:55:25a	4	Q. Okay. Did you compare the	11:58:52a
5	Q. Now, you just changed terms on	11:55:27a	5	adjusted R-squareds of NASDAQ to Miller peer	11:58:54a
6	me and I was so careful to get them down so we	11:55:30a	6	group?	11:59:03a
7	were talking about the same thing.	11:55:32a	7	A. I don't recall.	11:59:05a
8	Do I understand that the	11:55:33a	8	Q. Did you compare the adjusted	11:59:07a
9	adjusted R-squareds are virtually the same	11:55:34a	9	R-squareds of NASDAQ to S&P small cap?	11:59:10a
10	whether you use your NASDAQ index or whether	11:55:47a	10	A. I believe I did.	11:59:21a
11	you use the S&P index or whether you use the	11:55:51a	11	Q. What did you find when you did	11:59:23a
12	Miller peer index?	11:55:56a	12	that?	11:59:25a
13	A. The R-squareds are -- if I	11:55:59a	13	A. My recollection is that they	11:59:25a
14	replicate the regressions that I discuss in my	11:56:06a	14	were virtually identical.	11:59:26a
15	report -- remember, I discuss a single-factor	11:56:13a	15	Q. Did you compare the adjusted	11:59:32a
16	and a two-factor model. If I replicate the	11:56:18a	16	R-squared of your modified Bloomberg golf index	11:59:43a
17	single- and two-factor models, utilizing,	11:56:25a	17	to the adjusted R-squared of Miller's peer	11:59:50a
18	instead of the NASDAQ and the Bloomberg modified	11:56:30a	18	group?	11:59:54a
19	index, the S&P small cap and the peer group as	11:56:35a	19	A. I don't recall -- I don't	11:59:59a
20	identified by Mr. Miller, the R-squareds are	11:56:43a	20	believe I did. I just did -- just -- I did	12:00:00p
21	virtually the same.	11:56:48a	21	exactly what I indicated in the answer a couple	12:00:05p
22	Q. Perfect.	11:56:49a	22	of questions ago, which is, the analyses that I	12:00:09p
23	Does it matter whether we talk	11:56:52a	23	report in my report of NASDAQ and NASDAQ plus	12:00:17p
24	about R-squareds or adjusted R-squareds?	11:56:54a	24	industry, the one- and two-factor models which I	12:00:26p

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1	think are in Exhibit 4, I believe I did the same	12:00:29p	1	NYCE index.	12:04:10p
2	thing with respect to -- I simply -- my	12:00:40p	2	Q. In your last answer you referred	12:04:11p
3	recollection -- here's what I can recall.	12:00:47p	3	to growth stocks. Did you consider Adams to be	12:04:14p
4	I did one-factor and two-factor	12:00:50p	4	a growth stock?	12:04:16p
5	models to see if the explanatory power was any	12:00:53p	5	A. Yes, I think it was generally	12:04:17p
6	different or the R-squareds were any	12:00:57p	6	considered to be a type of stock that would be	12:04:19p
7	different, that's what I recall. And I recall	12:00:59p	7	considered to be a growth stock.	12:04:23p
8	concluding based on that analysis that there	12:01:03p	8	Q. Did you consider it to be a tech	12:04:25p
9	weren't any difference, that my results would	12:01:05p	9	stock, a high tech stock?	12:04:27p
10	not change if I substituted the S&P index for	12:01:07p	10	A. No, I think I considered it to	12:04:29p
11	the NASDAQ, for example.	12:01:15p	11	be a growth stock.	12:04:30p
12	Q. In constructing an index, one of	12:01:20p	12	Q. Now, at the time you used	12:04:33p
13	the things a researcher does is try to find a	12:01:23p	13	NASDAQ, did you consider any other index besides	12:04:35p
14	good fit; correct?	12:01:26p	14	this modified Bloomberg golf?	12:04:37p
15	A. That -- that depends on the	12:01:28p	15	A. No.	12:04:41p
16	purpose. I mean, typically it is not -- if	12:01:35p	16	Q. Did you -- you didn't consider	12:04:42p
17	you're simply looking for a good fit without any	12:01:46p	17	the Dow Jones?	12:04:46p
18	a priori reason for including a variable in a	12:01:52p	18	A. Industrial?	12:04:47p
19	regression, then that is thought of as data	12:01:59p	19	Q. Yes.	12:04:47p
20	mining and is not generally accepted as a	12:02:05p	20	A. No.	12:04:48p
21	scientific inquiry.	12:02:13p	21	Q. You didn't consider S&P 500 or	12:04:49p
22	One begins with a hypothesis	12:02:16p	22	S&P small cap?	12:04:52p
23	about what relationship should be expected and	12:02:18p	23	A. I didn't consider S&P 500, I	12:04:54p
24	then empirically tests that relationship and	12:02:24p	24	didn't consider the Dow Jones, I didn't consider	12:04:58p
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1	set up the experiment in a way that can be	12:02:29p	1	the S&P small cap.	12:05:00p
2	replicated by a third party utilizing the	12:02:32p	2	Q. Okay. Apart from NASDAQ,	12:05:01p
3	techniques that you have described.	12:02:35p	3	modified Bloomberg golf, and apart from the two	12:05:07p
4	Q. Okay. Why did you use NASDAQ?	12:02:38p	4	of those together, did you do runs or	12:05:12p
5	A. Well, because Adams was trading	12:02:42p	5	regressions on using any other indices?	12:05:18p
6	on the OTC or NASDAQ.	12:02:52p	6	A. Other than the -- no, other than	12:05:21p
7	Q. Any other reason?	12:03:04p	7	the analysis that we were just talking about a	12:05:26p
8	A. It's my practice if you want to	12:03:05p	8	moment ago.	12:05:29p
9	look at general market movements, the index you	12:03:07p	9	Q. And by that analysis you are	12:05:30p
10	use where you would expect to see a relationship	12:03:13p	10	referring to the analysis done after	12:05:32p
11	would be companies that are trading on a similar	12:03:18p	11	Mr. Miller's rebuttal report --	12:05:37p
12	exchange.	12:03:24p	12	A. Yes.	12:05:39p
13	Q. And it's true that the NASDAQ,	12:03:24p	13	Q. -- using the Miller peer group,	12:05:40p
14	as Mr. Miller pointed out in his rebuttal, it's	12:03:27p	14	or what you call that, and the S&P small cap?	12:05:43p
15	true that at the time the NASDAQ was dominated	12:03:30p	15	A. Yes.	12:05:49p
16	by high tech companies; correct?	12:03:33p	16	Q. Okay. Let's talk about event	12:05:50p
17	A. I don't know what he means by	12:03:35p	17	windows. What is an event window, please?	12:06:06p
18	"dominated." Certainly the NASDAQ is more	12:03:37p	18	A. I'm sorry?	12:06:10p
19	heavily weighted towards growth companies at	12:03:41p	19	Q. What is an event window?	12:06:11p
20	this particular point in time, which was before	12:03:47p	20	A. An event window and is commonly	12:06:19p
21	the '99 run-up in tech stocks. It was -- I	12:03:49p	21	referred -- the most common definition of an	12:06:26p
22	mean, certainly the NASDAQ is more heavily	12:03:58p	22	event window is the time period over which	12:06:30p
23	weighted towards tech and growth stocks than,	12:04:00p	23	someone undertaking an event study investigates	12:06:38p
24	say, the Dow Jones Industrial Average or the	12:04:02p	24	the impact of information on stock prices or	12:06:42p

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1	stock returns. 12:06:49p	1	reaching regarding the materiality of that 12:09:41p
2	Q. Now, you used an event window or 12:06:50p	2	information would be changed if I used a broader 12:09:44p
3	event windows in this work; correct? 12:06:53p	3	window than one day. 12:09:51p
4	A. Yes. 12:06:59p	4	Q. Okay. How did you investigate? 12:09:56p
5	Q. And the event window you used, 12:07:00p	5	A. In the manner that I just 12:09:59p
6	for all aspects of your work here, was one day? 12:07:01p	6	described, that I looked at each day 12:10:00p
7	A. No. 12:07:08p	7	individually in the combination of those two 12:10:02p
8	Q. Okay. You used, at least in 12:07:09p	8	days. 12:10:06p
9	some parts of your work, a one-day event window; 12:07:14p	9	In addition, even though the 12:10:06p
10	is that -- 12:07:18p	10	Lehman report has no time stamp on it, I 12:10:10p
11	A. That is correct. 12:07:18p	11	believe, both in reading Mr. Lantier's 12:10:14p
12	Q. Okay. In what part of your work 12:07:19p	12	deposition, and it's my understanding, having 12:10:18p
13	did you use a one-day event window? 12:07:24p	13	worked with buy and sell side analysts, that 12:10:21p
14	A. As is indicated in my report, 12:07:26p	14	typically the written report will be disclosed 12:10:25p
15	when I was able to identify when a piece of 12:07:36p	15	to market participants and the content would 12:10:33p
16	information was either published or became 12:07:42p	16	be disclosed to the market participants in the 12:10:36p
17	available to market participants, I utilized -- 12:07:46p	17	day -- on the day on which the report is 12:10:39p
18	I used the day on which that information was 12:07:53p	18	dated, during trading hours, or before the 12:10:42p
19	first available during trading hours. 12:07:55p	19	start of trading on the day that it is dated. 12:10:51p
20	Q. Okay. 12:07:58p	20	Consistent with that, I also 12:10:51p
21	A. Now, on -- the one I remember in 12:07:59p	21	looked at what the closing price was referred 12:10:52p
22	particular was the April -- I'm sorry, the April 12:08:07p	22	to in the August 28th report for Adams Golf to 12:10:55p
23	-- the August 28th Lehman Brothers report. It 12:08:09p	23	determine whether the closing price pertained 12:11:01p
24	has a date on it, but not a time stamp, so then 12:08:15p	24	to the 28th or the day before, and it 12:11:04p
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1	the question becomes is it a -- was it available 12:08:19p	1	pertained to the day before, which is 12:11:10p
2	to market participants during trading hours. 12:08:26p	2	consistent with the report being published on 12:11:13p
3	And, as I indicate in my report, I look at both 12:08:33p	3	the 28th. 12:11:16p
4	the 28th and the 31st and see whether either one 12:08:37p	4	Q. I asked you a question a moment 12:11:19p
5	of those days is statistically significant. 12:08:41p	5	ago about what you did to investigate a two-day 12:11:22p
6	Now -- 12:08:43p	6	event window and you said you already answered 12:11:26p
7	Q. Can I stop you? Forgive me. 12:08:46p	7	that. 12:11:28p
8	With regard to that, when you 12:08:48p	8	A. Yes. 12:11:29p
9	did that work regarding the Lehman report and 12:08:49p	9	Q. Tell me, again, what you did to 12:11:29p
10	you looked at the 28th and you looked at the 12:08:52p	10	investigate a two-day event window consisting of 12:11:32p
11	31st, you looked at each on a one-day event 12:08:54p	11	the 28th and the 31st. Did you run regressions 12:11:37p
12	window basis; correct? 12:08:57p	12	on it? 12:11:41p
13	A. And I also calculated the 12:08:59p	13	A. I aggregated the abnormal 12:11:44p
14	statistical significance on a two-day basis. 12:09:04p	14	returns or the residual returns. 12:11:46p
15	Q. Okay. With respect to Lehman, 12:09:07p	15	Q. Okay. 12:11:49p
16	that Lehman August 28th report? 12:09:12p	16	A. And then used -- and then tested 12:11:51p
17	A. Yes. 12:09:14p	17	whether they were significant based upon a 12:11:53p
18	Q. All right. And why with regard 12:09:20p	18	standard error that was estimated to be 12:11:57p
19	to the Lehman report did you use a two-day event 12:09:23p	19	consistent with a two-day return. So this -- I 12:12:01p
20	window? 12:09:26p	20	have used and others use in published work an 12:12:07p
21	A. Well, I think it would be a mis 12:09:28p	21	estimate of the two-day standard error is simply 12:12:12p
22	-- it would be a mischaracterization to say that 12:09:31p	22	the square root of two times the daily standard 12:12:16p
23	-- I investigated a two-day event window to 12:09:37p	23	error. 12:12:19p
24	determine whether the conclusions that I was 12:09:40p	24	Q. When you did so, what did you 12:12:27p

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1	come up with; a lack of statistical significance 12:12:29p	1	compute, based on the data, the 12:16:41p
2	on the two-day basis? 12:12:32p	2	autocorrelation in the return series and try 12:16:44p
3	A. Yes. 12:12:33p	3	to include that in the calculation of the 12:16:47p
4	Q. That work with regard to the 12:12:34p	4	standard error. 12:16:50p
5	two-day event window analysis or investigation, 12:12:37p	5	Q. What does autocorrelation mean? 12:16:52p
6	does that appear somewhere in your report or 12:12:42p	6	A. It refers to -- if you think 12:16:55p
7	your rebuttal report, with respect to the Lehman 12:12:44p	7	about correlation as being how two series move 12:16:59p
8	August 28th report? 12:12:46p	8	together, autocorrelation refers to how a series 12:17:06p
9	A. I don't -- as I sit here, I 12:12:57p	9	is related to the series lagged one day or one 12:17:14p
10	don't recall. I believe in the report I discuss 12:13:00p	10	month. 12:17:20p
11	both the return on the 28th and the 31st. 12:13:04p	11	Q. What's the effect of 12:17:26p
12	Q. Can you retrieve, please, the 12:13:20p	12	autocorrelation that some analysts use in this 12:17:28p
13	investigation you did of the two-day event 12:13:23p	13	context? 12:17:33p
14	window with respect to the Lehman August 28 12:13:26p	14	A. It depends on the size of the 12:17:34p
15	report? 12:13:31p	15	autocorrelation. If the autocorrelation is 12:17:36p
16	A. I don't know whether I still 12:13:41p	16	positive, it tends to make the standard error 12:17:40p
17	have it. I think that you could get very close 12:13:42p	17	somewhat bigger than the standard error that you 12:17:44p
18	to that result by -- actually, by going to my 12:13:50p	18	would get, assuming independence. 12:17:47p
19	report. 12:14:03p	19	Q. And what do you mean by 12:17:51p
20	I believe on Paragraph 59, as I 12:14:28p	20	"assuming independence"? 12:17:53p
21	outline, the residual return was less than one 12:14:43p	21	A. Assuming independence means that 12:17:54p
22	percent on the 28th and the residual return on 12:14:53p	22	you are assuming that the autocorrelation is 12:17:58p
23	the 31st was minus 5.2, so the cumulative 12:14:59p	23	zero on a one-day lag period. 12:18:01p
24	residual would be somewhere around 6.2. The 12:15:05p	24	Q. Okay. So, now, the regression 12:18:05p
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1	one-day -- so that -- that's -- that would be 12:15:12p	1	you ran, if any, with regard to the two-day 12:18:08p
2	the two-day abnormal return, would be 6.2 12:15:18p	2	period, I hope I have the presence of mind to 12:18:13p
3	percent. 12:15:22p	3	ask you to be good enough to produce that to us 12:18:17p
4	Since neither return is 12:15:23p	4	if you can so retrieve it. 12:18:19p
5	statistically significant on a one-day basis, 12:15:25p	5	A. I'll take it under 12:18:23p
6	combining the two, given that the standard 12:15:29p	6	consideration. 12:18:24p
7	error for a two-day return is bigger than the 12:15:31p	7	Q. I appreciate it. 12:18:24p
8	one-day return, is not going to result in the 12:15:37p	8	Now, other than that, that is, 12:18:27p
9	6.2 percent return or something less than 6.2 12:15:39p	9	other than with respect to the August -- wait 12:18:30p
10	percent return to be statistically 12:15:47p	10	a minute, one other thing. You mentioned a 12:18:34p
11	significant. 12:15:49p	11	few minutes ago that it's your experience that 12:18:37p
12	Q. Okay. Tell me about the 12:15:50p	12	sometimes where there is a written report by 12:18:40p
13	standard error with regard to how the standard 12:15:51p	13	an analyst -- did I hear you correctly, that 12:18:44p
14	error changes depending upon the event -- the 12:15:54p	14	it's your experience that sometimes the 12:18:48p
15	length of the event window. Would you describe 12:15:57p	15	contents of that written report are 12:18:50p
16	to me how that works. 12:16:01p	16	disseminated orally prior to the issuance? 12:18:54p
17	A. Generally the longer the event 12:16:03p	17	A. In the morning conference call 12:18:58p
18	window, the larger the standard error because 12:16:06p	18	on the day that the report is issued. 12:19:00p
19	the volatility of two-day returns is generally 12:16:18p	19	Q. Okay. Is it your experience 12:19:03p
20	higher than one-day returns under the assumption 12:16:25p	20	that the contents are sometimes disseminated 12:19:05p
21	of independence in the returns. 12:16:27p	21	prior to that on an oral basis? 12:19:09p
22	Now, some analysts, when 12:16:30p	22	A. I'm not sure what you mean by 12:19:14p
23	looking at two or -- two-day abnormal returns 12:16:32p	23	"the contents disseminated." 12:19:19p
24	or three-day abnormal returns will also 12:16:38p	24	Q. An analyst calls up a good 12:19:21p

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1	client and says, "I'm going to issue an analyst	12:19:24p	1	favorable such as "buy" --	12:22:59p
2	report tomorrow that is going to have an impact	12:19:26p	2	Q. "Hot"?	12:23:01p
3	on the stock price. I just wanted you to know	12:19:28p	3	A. Something like that.	12:23:03p
4	what I'm going to say."	12:19:31p	4	-- and "negative," and then	12:23:09p
5	A. That -- I'm not familiar with	12:19:33p	5	try to come up with a quantitative measure of	12:23:09p
6	that practice.	12:19:35p	6	the frequency on a particular day in which	12:23:12p
7	Q. You are familiar with the	12:19:36p	7	those words appear, and then to use that	12:23:14p
8	occurrence that stock prices move sometimes on	12:19:40p	8	quantitative measure to examine whether on	12:23:20p
9	the basis of oral information being disseminated	12:19:45p	9	that day there is a significant stock price	12:23:24p
10	into the marketplace?	12:19:51p	10	movement, and so what the researcher is doing	12:23:29p
11	A. Are you saying --	12:19:55p	11	is setting up a -- an experiment that can be	12:23:34p
12	Q. Rumors move stock prices	12:19:58p	12	replicated by a third party that is testing,	12:23:37p
13	sometimes, don't they?	12:20:00p	13	using objective scientific measures, the	12:23:43p
14	A. If they are material and -- if	12:20:02p	14	significance of a piece of information.	12:23:49p
15	they are material, they certainly can move stock	12:20:13p	15	Q. And you said Journal of Finance	12:23:55p
16	prices, and there are scientific methods for the	12:20:15p	16	five years ago or thereabouts?	12:23:58p
17	determination of whether a specific rumor or	12:20:21p	17	A. Or thereabouts, yes.	12:24:00p
18	conjecture is disseminated to the market.	12:20:31p	18	Q. Who wrote it?	12:24:01p
19	Q. What are those scientific	12:20:36p	19	A. My recollection is a guy -- at	12:24:04p
20	methods?	12:20:37p	20	least one of the authors was at the University	12:24:06p
21	A. Let me give a couple of	12:20:42p	21	of British Columbia. I don't recall, as I sit	12:24:09p
22	examples.	12:20:44p	22	here, who the authors are.	12:24:13p
23	There is academic literature	12:20:45p	23	Q. That article dealt with chat	12:24:14p
24	that looks at the impact of, say, chat room	12:20:50p	24	room --	12:24:16p

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1	information, and that literature asks the	12:21:02p	1	A. Right.	12:24:17p
2	question of whether chat room information is	12:21:10p	2	Q. -- communication.	12:24:18p
3	viewed as material to investors.	12:21:12p	3	Did it deal with oral rumors?	12:24:19p
4	Now, what that literature	12:21:19p	4	A. I don't recall.	12:24:25p
5	recognizes is that a reference in a chat room	12:21:21p	5	Q. Rumor or other forms of oral	12:24:28p
6	to a particular company, whether that is	12:21:25p	6	communication can, if material, affect stock	12:24:34p
7	favorable or unfavorable, is likely to be a	12:21:32p	7	price; correct?	12:24:37p
8	subjective evaluation. So those studies	12:21:39p	8	A. If that information is material	12:24:40p
9	provide objective measures of the extent to	12:21:41p	9	and becomes available to market participants.	12:24:43p
10	which there is discussion within a chat room	12:21:46p	10	Q. And how in that case does one	12:24:46p
11	and objective measures as to whether that --	12:21:51p	11	objectively measure, if at all, as to whether	12:24:48p
12	those discussions are favorable or unfavorable	12:21:54p	12	the information has materially affected the	12:24:53p
13	and then attempts to test whether that	12:21:59p	13	market?	12:24:56p
14	information is viewed by market participants	12:22:04p	14	A. The procedure that I think I've	12:24:57p
15	as being material.	12:22:07p	15	used and would use is to first provide	12:25:01p
16	Q. What are these objective	12:22:11p	16	information -- to ascertain whether the	12:25:05p
17	measures determining whether the information is	12:22:18p	17	information that is characterized as -- you are	12:25:09p
18	favorable or unfavorable?	12:22:20p	18	characterizing as rumor or opinion is publicly	12:25:15p
19	A. The -- and I'm going by	12:22:26p	19	available. So there is a news report, an	12:25:21p
20	recollection, this is an article published in	12:22:27p	20	analyst report, a company disclosure, a	12:25:27p
21	the Journal of Finance maybe five years ago --	12:22:29p	21	disclosure, say, of a government regulatory	12:25:33p
22	the researchers set up a text-based search of	12:22:36p	22	agency, some objective way of determining	12:25:37p
23	chat room information and identify certain words	12:22:42p	23	whether the information is publicly available.	12:25:39p
24	that would be considered to be unambiguous with	12:22:51p	24	And then the second step would	12:25:45p

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1	be, in terms of identifying the materiality of	12:25:46p	1	were considering in valuing the stock.	12:28:41p
2	that information, to examine the stock price	12:25:49p	2	And then I would look to the time	12:28:49p
3	movements on the day that or days in which the	12:25:56p	3	at which that were available to market	12:28:50p
4	analyst has been able to determine the	12:26:01p	4	participants, and then I would do the	12:28:54p
5	information was publicly available.	12:26:06p	5	next step, which would be assess its	12:28:57p
6	Q. And in your last answer, when	12:26:09p	6	materiality by examining whether it	12:29:00p
7	you referred to the date on which the	12:26:11p	7	changed the total mix of information as	12:29:02p
8	information was publicly available, do you mean	12:26:13p	8	measured by did it move the stock in a	12:29:06p
9	by means of some writing or do you mean,	12:26:16p	9	significant way.	12:29:12p
10	instead, by means of the rumor process?	12:26:21p	10	BY MR. COLLINS:	12:29:13p
11	A. I think one needs to determine	12:26:25p	11	Q. Okay, that is very interesting.	12:29:13p
12	that it was available to market participants.	12:26:30p	12	So let's assume you are walking	12:29:14p
13	Let me see if I can make a distinction, and I	12:26:39p	13	to your cab this afternoon to get a ride to	12:29:16p
14	think it's an important one.	12:26:41p	14	the airport and the person who tells you	12:29:19p
15	If -- would I consider as I	12:26:43p	15	Google is overvalued is the CEO of Google.	12:29:23p
16	walk back to my hotel tonight or this	12:26:50p	16	Let's further assume that you	12:29:29p
17	afternoon --	12:26:52p	17	can find no writing, analyst report, press	12:29:32p
18	MR. COLLINS: Off the record.	12:26:54p	18	report, news story suggesting or stating that	12:29:37p
19	(Discussion off the record.)	12:26:54p	19	the CEO of Google believes Google to be	12:29:45p
20	THE WITNESS: As I walk back	12:26:57p	20	overstated.	12:29:48p
21	early this afternoon to my hotel, and I	12:26:59p	21	And let's further assume, going	12:29:49p
22	were to pass someone that said, "Gosh,	12:27:03p	22	to your next step as you called it a moment	12:29:50p
23	I think Google is overvalued," okay,	12:27:09p	23	ago, there is a statistically significant	12:29:53p
24	that would be a rumor. Okay?	12:27:14p	24	movement on the day that the CEO of Google	12:29:55p

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1	Now, how would I as a scientist	12:27:16p	1	shared with you this information.	12:30:02p
2	determine whether that rumor was	12:27:21p	2	Under those circumstances,	12:30:04p
3	material and was available -- was	12:27:25p	3	would you conclude that it was impossible that	12:30:06p
4	reflected in the information that the	12:27:28p	4	-- or highly unlikely that oral communication,	12:30:13p
5	market was using to value the stock?	12:27:35p	5	in this case in the form of rumor, materially	12:30:19p
6	Well, I first would have to say, is	12:27:41p	6	affected the market price?	12:30:23p
7	there any indication that market	12:27:45p	7	A. Well, I mean, I think that if,	12:30:28p
8	participants are aware of that opinion	12:27:48p	8	under your hypothetical, if the CEO of Google	12:30:32p
9	and view it as new information? What	12:27:56p	9	conveyed that information of overvaluation to me	12:30:41p
10	would I do?	12:28:01p	10	in the cab and on the same day there was a	12:30:45p
11	I would not rely necessarily	12:28:02p	11	change in the stock price, I would -- first of	12:30:49p
12	completely on written documents, but	12:28:05p	12	all, under the hypothetical, if I were the one	12:30:51p
13	certainly I would look for press	12:28:06p	13	that received that information -- and I was the	12:30:57p
14	releases, I would like for company	12:28:09p	14	only one -- and I didn't trade on it, then	12:30:58p
15	releases, I would look for analyst	12:28:11p	15	there's no reason to expect that that	12:31:00p
16	discussion, I would go to the -- I	12:28:14p	16	conversation would have -- that that would be	12:31:03p
17	would review perhaps the e-mails that	12:28:17p	17	causally linked to the stock price movement.	12:31:06p
18	come to the investor relations	12:28:22p	18	Now, if, in fact, the CEO of	12:31:09p
19	department of a company, I would review	12:28:27p	19	Google were -- that we undertook an	12:31:15p
20	the conference calls that the company	12:28:28p	20	investigation and concluded that in fact on	12:31:20p
21	holds with investors and analysts to	12:28:30p	21	the day that I got into the cab and heard that	12:31:25p
22	determine whether the information that	12:28:33p	22	Google was overvalued, the CEO had also	12:31:32p
23	I, quote, heard on the street was	12:28:35p	23	communicated to Black Rock and other	12:31:37p
24	information that market participants	12:28:38p	24	institutional investors that it was his view	12:31:41p

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1	that the stock was overvalued, would I expect 12:31:45p	1	they would be the same. One could be higher or 01:41:17p
2	then there to be a price reaction? Yes, I 12:31:51p	2	lower, there's no reason to expect -- there's no 01:41:22p
3	would. 12:31:53p	3	reason necessarily to expect them to differ, but 01:41:29p
4	Would I expect also that there 12:31:53p	4	there's nothing that would lead me to believe 01:41:32p
5	would be some discussion, public information, 12:31:56p	5	that they would be the same either. I mean, 01:41:38p
6	that would be indicative of the CEO's comments 12:32:02p	6	there's no -- 01:41:41p
7	to that effect? I certainly would think so. 12:32:08p	7	Q. Because they are two different 01:41:42p
8	Because it would be viewed by market 12:32:10p	8	analyses? 01:41:44p
9	participants and powers of the stock as being 12:32:15p	9	A. No. It would -- I think the 01:41:47p
10	something that was material and significant to 12:32:19p	10	issue would be -- sort of a more general issue 01:41:54p
11	them. 12:32:22p	11	would be, if I -- I would expect them to be very 01:41:59p
12	MS. REED: I don't want to stop 12:32:23p	12	similar if the underlying characteristics of the 01:42:02p
13	things, but I was just looking at the 12:32:25p	13	company were similar. I would expect them to 01:42:09p
14	clock and we are at about 12:36, so 12:32:26p	14	differ if, say, the fundamentals of the company 01:42:13p
15	whenever this line -- 12:32:29p	15	differed or there was reason to believe that 01:42:19p
16	MR. COLLINS: Just a couple more 12:32:30p	16	market conditions were materially different 01:42:24p
17	minutes. 12:32:31p	17	during a contemporaneous period versus, say, a 01:42:27p
18	MS. REED: Okay. 12:32:32p	18	period prior to an analysis. 01:42:33p
19	BY MR. COLLINS: 12:32:32p	19	Q. Did you consider in your work in 01:42:35p
20	Q. Very interesting. Time for 12:32:32p	20	this case whether there was a marked change in 01:42:36p
21	lunch. 12:32:34p	21	market conditions affecting Adams Golf during 01:42:39p
22	It is not necessary in every 12:32:36p	22	the class period; that is, when you created your 01:42:46p
23	case for there to be a writing in order for 12:32:39p	23	rolling regression in this case and you went 01:42:51p
24	the stock price to move materially; correct? 12:32:43p	24	about this assignment using a rolling 01:42:54p
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1	A. I think that's correct. For 12:32:45p	1	regression -- 01:42:56p
2	example, stock prices might move because of 12:32:47p	2	A. Right. 01:42:57p
3	information conveyed during a conference call 12:32:54p	3	Q. -- did you take into the fact, 01:42:57p
4	with the company. Their stock prices could 12:32:56p	4	into consideration, the possibility that there 01:43:00p
5	move, and I would expect there to be discussion 12:33:05p	5	was a marked change in market conditions during 01:43:02p
6	of the -- linking the stock price movement to 12:33:08p	6	the class period? 01:43:04p
7	information that, say, an analyst gathers from 12:33:12p	7	A. During the class period? 01:43:05p
8	discussing a particular stock with the brokerage 12:33:18p	8	Certainly the model will capture the extent to 01:43:07p
9	network. 12:33:22p	9	which that occurs. But I used the 01:43:11p
10	MR. COLLINS: Let's break for 12:33:23p	10	contemporaneous period, as I indicated before, 01:43:21p
11	lunch at the moment. 12:33:24p	11	because I didn't have a period that preceded the 01:43:24p
12	THE WITNESS: Okay. 12:33:25p	12	class period in which the company was publicly 01:43:27p
13	(A luncheon recess was had from 12:33:26p	13	traded because it is an initial public offering. 01:43:30p
14	12:33 p.m. to 1:40 p.m.; and then the 12:33:26p	14	Q. So, so this was the best you 01:43:34p
15	proceedings continued as follows:) 12:33:26p	15	could do? 01:43:36p
16	BY MR. COLLINS: 01:40:47p	16	A. I think that this is -- that 01:43:36p
17	Q. Dr. James, if you do a rolling 01:40:47p	17	what I've done is a reasonable approach and I 01:43:39p
18	regression, are you going to get the same result 01:40:49p	18	think it is, under the circumstances, the best 01:43:44p
19	you will get if your examination period begins 01:40:52p	19	approach to take, yes. 01:43:49p
20	prior to the class period? 01:40:59p	20	Q. Were there other approaches 01:43:50p
21	A. I'm not sure what you mean by 01:41:05p	21	considering the fact that it was an IPO? 01:43:51p
22	"same result." 01:41:07p	22	A. I'm not sure what you mean by 01:43:54p
23	Q. Same R-squared. 01:41:08p	23	"other approaches." 01:43:56p
24	A. There's no reason to expect that 01:41:13p	24	Q. Well, could you have used as the 01:43:57p

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1	MS. REED: Todd, I would just	02:26:48p	1	importance of Adams Golf market share	02:29:15p
2	like to -- I'm struggling with the word	02:26:50p	2	as it pertains to its valuation. So I	02:29:19p
3	possible here, what you mean by	02:26:52p	3	see that. I don't see a -- and I think	02:29:24p
4	possible and to the extent you're	02:26:54p	4	that that certainly is consistent with	02:29:31p
5	asking if anything is possible. I	02:26:55p	5	the notion that market participants	02:29:33p
6	mean, I think that's been objected by	02:26:57p	6	were considering that in valuation.	02:29:36p
7	you on numerous occasions in our	02:26:59p	7	To the extent that I investigated	02:29:44p
8	deposition. So you keep going down	02:27:02p	8	information regarding whether	02:29:48p
9	this line of possibility and I think	02:27:03p	9	announcements concerning Orlimar's	02:29:52p
10	it's not possible to answer.	02:27:05p	10	market position, say by Adams Golf,	02:29:55p
11	MR. COLLINS: Fair enough.	02:27:07p	11	were significant in moving the stock	02:29:59p
12	BY MR. COLLINS:	02:27:07p	12	price, I did investigate that issue,	02:30:04p
13	Q. Go ahead.	02:27:07p	13	and unlike the gray market in which I	02:30:09p
14	A. Can I have the question back.	02:27:16p	14	was unable to find a statistically	02:30:13p
15	(The court reporter read the	02:27:17p	15	significant reaction to information	02:30:16p
16	record as follows:	02:27:17p	16	coming to the market regarding gray	02:30:20p
17	"QUESTION: Where there is	02:27:17p	17	market activities at the 95 or 90	02:30:25p
18	observation of a trend -- let me give	02:27:17p	18	percent significance level, I was able	02:30:29p
19	you another hypo.	02:27:17p	19	to find at the 90 percent significance	02:30:32p
20	Do you think it is possible that	02:27:17p	20	level information regarding Orlimar's	02:30:37p
21	market participants in July, August,	02:27:17p	21	relative market position. Okay?	02:30:40p
22	September observed Adams Golf clubs	02:27:17p	22	BY MR. COLLINS:	02:30:45p
23	being removed from the shelves and	02:27:17p	23	Q. Is this work you also did after	02:30:45p
24	Orlimar clubs being put in their place	02:27:17p	24	Mr. Miller's rebuttal?	02:30:48p
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1	in prestige golf stores and that market	02:27:17p	1	A. Yes.	02:30:49p
2	participants on the basis of that	02:27:17p	2	Q. You need to let me know	02:30:50p
3	observation could have been influenced	02:27:17p	3	everything you did after Mr. Alan's --	02:30:52p
4	with regard to their view of any	02:27:17p	4	Mr. Miller's rebuttal. I thought we were	02:30:55p
5	investment in Adams Golf?")	02:27:17p	5	through that and apparently there is more stuff.	02:30:57p
6	THE WITNESS: I haven't seen any	02:28:00p	6	A. Actually, I take that back.	02:31:00p
7	-- as I sit here, I don't recall any	02:28:03p	7	It's not work that I did before Mr. -- or after	02:31:03p
8	evidence or commentary or discussion or	02:28:06p	8	Mr. Miller's rebuttal, it's work that I did	02:31:12p
9	anything in the record that was said --	02:28:10p	9	before.	02:31:14p
10	that suggests that Adams Golf clubs	02:28:15p	10	Q. Good. Well, we'll come back to	02:31:15p
11	were being removed and replaced by	02:28:19p	11	that, your use of the 90 percent level.	02:31:16p
12	Orlimar Golf clubs during this period	02:28:22p	12	A. It's reflected in the price	02:31:29p
13	of time, so I'm not sure how you are --	02:28:25p	13	movement on 9/29/98.	02:31:30p
14	your hypothetical is related to this	02:28:29p	14	Q. Thank you.	02:31:37p
15	issue.	02:28:31p	15	What are you looking at,	02:31:38p
16	I do recall seeing discussion by	02:28:35p	16	please?	02:31:39p
17	analysts and commentary in conference	02:28:37p	17	A. It's the integrated chronology.	02:31:39p
18	calls regarding the competitive	02:28:41p	18	MS. REED: Exhibit 341.	02:31:45p
19	position of Adams relative to Orlimar,	02:28:48p	19	MR. COLLINS: Which we got today.	02:31:47p
20	so I do see an observation of a trend	02:28:56p	20	MS. FOX: Yes.	02:31:49p
21	by market participants with regard to	02:29:01p	21	BY MR. COLLINS:	02:31:49p
22	Orlimar.	02:29:04p	22	Q. And what page did you say it's	02:31:49p
23	I do also see discussion amongst	02:29:11p	23	on?	02:31:51p
24	market participants about the	02:29:13p	24	Oh, you are referring to 9/28.	02:31:53p

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1	Q. Stock return.	04:09:25p	1	not be reflected; that would be washed out by	04:12:03p
2	And how do you choose what	04:09:26p	2	your monthly observation?	04:12:07p
3	stock return you use?	04:09:29p	3	A. Yes, but it would be only	04:12:10p
4	A. Over the month?	04:09:32p	4	looking at how one could explain monthly	04:12:12p
5	Q. For each month.	04:09:33p	5	variations in the stock return relative to	04:12:17p
6	A. It's from the close of the prior	04:09:37p	6	monthly variations in the industry index.	04:12:22p
7	month to the close of the current month, so it	04:09:40p	7	Q. Why was the period under study	04:12:28p
8	would be the cumulative return over the month,	04:09:44p	8	in Exhibit 10, why did that cut off at June 11?	04:12:31p
9	so all of the returns in the month are used.	04:09:49p	9	A. You know, I looked at Exhibit 10	04:12:34p
10	All the daily returns are incorporated into the	04:09:53p	10	and I knew you were going to ask that question,	04:12:36p
11	monthly return.	04:09:57p	11	and I don't recall. I think it, frankly, might	04:12:38p
12	Q. And for the monthly observation	04:09:57p	12	be an oversight.	04:12:42p
13	for the industry index, how did you determine	04:10:00p	13	Q. "An oversight" meaning what?	04:12:43p
14	that?	04:10:02p	14	A. On my part. So I need to go	04:12:46p
15	A. The same, the same way. So you	04:10:02p	15	back -- in just assembling this, as I sit here,	04:12:48p
16	take each component of the industry -- I think	04:10:05p	16	I don't recall why it ended in June of 1999.	04:12:55p
17	the index -- the Bloomberg index is on -- you	04:10:08p	17	Q. Did you consider -- and I	04:12:58p
18	can -- I think -- I think I recall seeing it on	04:10:12p	18	understand, I respect people that forget things,	04:13:02p
19	a level basis, you just take level prior month	04:10:15p	19	I do that, too. But did you consider, if you	04:13:04p
20	-- level at the end of the month plus level at	04:10:22p	20	know, running the regression at Exhibit 10	04:13:06p
21	the prior month divided by level at the prior	04:10:25p	21	through December '99 as you ran the regressions	04:13:09p
22	month will give you the return over that month,	04:10:28p	22	in Exhibit 12?	04:13:18p
23	the same way you calculate a return over the	04:10:30p	23	A. I don't recall making a	04:13:24p
24	month.	04:10:32p	24	distinction between June of 1999 and December of	04:13:27p
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1	Q. Why did you perform the	04:10:33p	1	1999, so as I sit here I don't recall making any	04:13:35p
2	regression in Exhibit 10; what did that add to	04:10:35p	2	conscious decision to cut one analysis at 6/99	04:13:44p
3	the work you were doing otherwise?	04:10:37p	3	and the other analysis at year-end 1999.	04:13:48p
4	A. I think we touched on this topic	04:10:40p	4	Q. I want to go back to a couple of	04:13:58p
5	this morning when we had a discussion of why	04:10:43p	5	points you raised earlier. First, you said that	04:14:00p
6	market participants and researchers utilize,	04:10:52p	6	you did consider a two-day event window in	04:14:03p
7	say, monthly returns. Remember I said if you	04:10:56p	7	response to the August 28, 1998, Lehman analyst	04:14:07p
8	look at Ibbotson or Barra or other vendors of	04:11:01p	8	report; correct?	04:14:14p
9	what are called betas, how stock moves with the	04:11:08p	9	A. Right.	04:14:15p
10	market, those vendors may also have how stock	04:11:11p	10	Q. Did you consider a three-day	04:14:15p
11	moves with industry comparables; that generally	04:11:15p	11	event window?	04:14:17p
12	that analysis -- not always, but typically that	04:11:19p	12	A. No.	04:14:18p
13	analysis is done to figure out the influence of	04:11:22p	13	Q. Did you consider a two-day event	04:14:18p
14	general industry factors, is done on a monthly	04:11:26p	14	window with regard to any other periods of the	04:14:21p
15	basis as opposed to a daily basis for the	04:11:28p	15	class period?	04:14:25p
16	reasons I gave you before, which is that on a	04:11:34p	16	A. I don't recall that I did.	04:14:29p
17	monthly basis you are basically taking out a lot	04:11:35p	17	I do recall, as we mentioned	04:14:34p
18	of noise that occurs, what a statistician would	04:11:40p	18	earlier today, doing an analysis in response	04:14:37p
19	refer to as noise, on the daily returns due to	04:11:45p	19	to something which was in Mr. Miller's report,	04:14:43p
20	randomness.	04:11:48p	20	and that was he indicated -- he made two	04:14:50p
21	Q. So, again, with regard to	04:11:51p	21	points: First, that, you know, while I looked	04:14:55p
22	Exhibit 10, if there were volatility in either	04:11:52p	22	at statistical significance at a 95 percent	04:15:00p
23	the index on an intramonth basis or in Adams	04:11:56p	23	level, I didn't look at the significance at	04:15:04p
24	Golf stock on an intramonth basis, that would	04:11:59p	24	other levels. And, as I indicated in my	04:15:06p

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1	report, the 95 percent level is the 04:15:08p	1	regarding -- there would be no reason to use a 04:18:22p
2	conventional level; although, some researchers 04:15:11p	2	multiple-day window more than two days for this 04:18:28p
3	will report significance at a 10 percent 04:15:17p	3	analysis because you would use that if you were 04:18:34p
4	level. And so I examined whether there were 04:15:21p	4	uncertain as -- you have a news announcement -- 04:18:37p
5	days that were significant at a 90 percent 04:15:31p	5	we talked about this earlier today; if you had a 04:18:40p
6	level and what information was coming to the 04:15:36p	6	news announcement and you weren't sure whether 04:18:44p
7	market on those days. 04:15:47p	7	that news announcement was made -- you know what 04:18:46p
8	Second is in response to a 04:15:49p	8	day it was made on, but you don't know whether 04:18:48p
9	comment in his report concerning looking at the 04:15:51p	9	it was during trading hours or not. 04:18:54p
10	returns over multiple days. I asked the 04:16:01p	10	Q. Sure. 04:18:54p
11	question of whether if the results and my 04:16:03p	11	But you might also have new 04:18:54p
12	conclusions regarding statistical significance 04:16:11p	12	information enter in the market or allegedly 04:18:55p
13	and the information coming to the market on 04:16:16p	13	new information enter in the market that might 04:18:58p
14	those days would be altered if I used a two-day 04:16:18p	14	be in the form of rumor or oral communication 04:19:01p
15	window, and concluded that -- my conclusions 04:16:25p	15	which would be another situation in which you 04:19:03p
16	were the same whether I used a two-day window or 04:16:33p	16	were uncertain as to what the disclosure date 04:19:06p
17	a one-day window for each of the events that I 04:16:36p	17	is. Correct? 04:19:08p
18	analyzed. 04:16:43p	18	A. No, I would certainly think that 04:19:09p
19	So if you take the Golf Pro 04:16:44p	19	if there was an allegation that a rumor or oral 04:19:11p
20	August 1st article and say, well, look at a 04:16:47p	20	communication were material, that you would be 04:19:18p
21	two-day window around that, would that alter 04:16:50p	21	able to identify the date at which that 04:19:25p
22	your conclusion regarding the statistical 04:16:53p	22	information became available to the market. I 04:19:30p
23	significance, would using a 90 percent 04:16:58p	23	would also say that -- and be able to relate it, 04:19:33p
24	confidence interval as opposed to a 95 percent 04:17:05p	24	as I talked about earlier today, in an objective 04:19:37p
Page 223		Page 225	
1	confidence interval impact the conclusion, and 04:17:08p	1	scientific manner, to the price reaction. 04:19:44p
2	the answer to both of those questions is no. 04:17:11p	2	As I have indicated, oral 04:19:48p
3	Q. Which events or which time 04:17:19p	3	communication, as it would be in the context 04:19:51p
4	periods during the class period did you consider 04:17:21p	4	of a conference call with investors, you would 04:19:52p
5	using a multiple-day event window for? 04:17:25p	5	look at the day on which that conference call 04:19:57p
6	A. Every day. 04:17:29p	6	occurred, that oral communication, for 04:19:59p
7	Q. Okay. And which events did you 04:17:31p	7	purposes of determining whether that 04:20:03p
8	consider using the 90 percent confidence level 04:17:33p	8	communication was material. 04:20:07p
9	for? 04:17:37p	9	Q. If it were a rumor, however, you 04:20:09p
10	A. Every day. 04:17:38p	10	might not know when the rumor first started 04:20:11p
11	Q. And how did you apply that using 04:17:40p	11	circulating; correct? 04:20:15p
12	every day? For example, if I can turn you to 04:17:42p	12	A. I think that's -- I mean, again, 04:20:19p
13	Page Exhibit 5? 04:17:46p	13	it's -- and we went through this before -- I 04:20:22p
14	A. Mm-hmm. 04:17:54p	14	would -- if I were asked to assess the 04:20:25p
15	Q. With regard to using a 04:17:55p	15	materiality of an alleged rumor, the first step 04:20:28p
16	multiple-day event window, what did you mean by 04:18:00p	16	I would take is to try to determine when that 04:20:33p
17	that; three days or five days? 04:18:03p	17	rumor was being utilized by market participants 04:20:35p
18	A. Two days. 04:18:04p	18	for purposes of pricing or valuing the stock. 04:20:45p
19	Q. Okay. You didn't look at 04:18:05p	19	I would also think that -- 04:20:48p
20	anything more than two days, did you? 04:18:06p	20	there's certainly -- and I would -- I would 04:20:54p
21	A. No, I had no information that 04:18:08p	21	expect to see, if it was a rumor that was 04:20:59p
22	would indicate to me that the market would not 04:18:10p	22	material and significant to investors, that -- 04:21:02p
23	operate in an efficient way and I had no 04:18:15p	23	as I indicated before, that there would be 04:21:06p
24	information to me that indicated any uncertainty 04:18:18p	24	some commentary on it, in some source. 04:21:08p

CHRISTOPHER M. JAMES

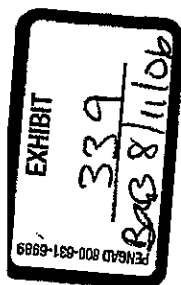
Page 254			Page 256		
1	Q. Are there models that can be	05:21:20p	1	evidence, apart from what you've put in your	05:24:16p
2	used that test materiality on the basis of	05:21:21p	2	reports, to indicate when that Golf Pro article	05:24:21p
3	volume or some combination of volume and price	05:21:25p	3	was available?	05:24:24p
4	movement?	05:21:29p	4	A. Yes.	05:24:26p
5	A. I mean, I have not seen that	05:21:37p	5	Q. When?	05:24:26p
6	analysis done in the context of, say, a damage	05:21:40p	6	A. In response to the Miller report	05:24:28p
7	analysis. I have seen some academic studies	05:21:43p	7	where he conjectures that it might have been	05:24:32p
8	that ask the question of whether information has	05:21:49p	8	available earlier, I performed the following	05:24:37p
9	an effect on trading volume.	05:22:01p	9	test. Based upon communications that I'm aware	05:24:40p
10	Q. And do you have any opinion as	05:22:11p	10	of between Cornerstone and the publishers of	05:24:46p
11	to the usability or appropriateness of those	05:22:13p	11	Golf Pro, which is now not currently published,	05:24:53p
12	models?	05:22:17p	12	they were unable to answer the question as to	05:25:04p
13	A. I think the appropriateness	05:22:20p	13	whether it was available before or after the	05:25:05p
14	would depend on the purpose of their being	05:22:23p	14	cover price -- cover date.	05:25:08p
15	used. I would have to go back and look at some	05:22:31p	15	So I conducted a Factiva search	05:25:11p
16	of those papers. Most of the paper -- the	05:22:36p	16	between 1995 and 2000 in which I used the	05:25:15p
17	academic literature in finance is more focused	05:22:40p	17	keywords "Golf Pro magazine," and then I	05:25:22p
18	on how information impacts value as opposed to	05:22:48p	18	looked at all of the articles that were	05:25:26p
19	trading volume. Although, there are a few	05:22:53p	19	available on Factiva that reference Golf Pro	05:25:29p
20	papers out there that look at trading volume. I	05:22:55p	20	magazine and asked the question of whether	05:25:34p
21	just don't recall what the conclusions are.	05:22:58p	21	there was any reference in the public press to	05:25:36p
22	Q. The famous Golf Pro article	05:22:59p	22	a Golf Pro magazine article prior to the	05:25:41p
23	allegedly of August or August 1, 1998, when was	05:23:03p	23	stated publication date on the cover, and I	05:25:46p
24	that available to the market?	05:23:08p	24	was able to identify several instances in	05:25:50p
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1	A. As I indicate in my report, it's	05:23:10p	1	which there is a reference to a particular	05:25:53p
2	my opinion that it's available to the market on	05:23:16p	2	issue of Golf Pro magazine, and all of the	05:25:57p
3	August 1st.	05:23:19p	3	references were after the publication date	05:26:01p
4	Q. Well, surely you're not offering	05:23:19p	4	which is consistent with -- which is	05:26:04p
5	an opinion on that now, Dr. James, are you?	05:23:21p	5	inconsistent with the conjecture by Mr. Miller	05:26:09p
6	A. Yes, I am.	05:23:23p	6	that the information was available to the	05:26:13p
7	Q. You might be making an	05:23:24p	7	market prior to the cover date.	05:26:19p
8	assumption, but you are offering -- are you an	05:23:26p	8	Q. Did you save those searches?	05:26:27p
9	expert with regard to when Golf Pro appeared in	05:23:29p	9	A. No.	05:26:29p
10	1998?	05:23:32p	10	Q. Did you communicate with your	05:26:30p
11	A. I'm not representing myself to	05:23:33p	11	office about providing to us information with	05:26:34p
12	be an expert in when Golf Pro appeared. I am	05:23:35p	12	regard to the additional regressions you said	05:26:35p
13	representing myself to be an expert in, first of	05:23:40p	13	you would have?	05:26:38p
14	all, knowing what the publication date and the	05:23:43p	14	A. I have -- it's not my office.	05:26:41p
15	convention of using publication dates. I	05:23:50p	15	Q. Cornerstone. Whomever you had	05:26:43p
16	believe your own expert uses the publication	05:23:52p	16	to communicate with.	05:26:44p
17	date as the date referenced in his chronology.	05:23:55p	17	A. Yes, and the individual that is	05:26:46p
18	Second, I undertook an	05:23:59p	18	available -- the individual who undertook that	05:26:53p
19	investigation to determine whether there was	05:24:01p	19	analysis is not available, he's -- that's Amir	05:26:59p
20	any evidence that suggests that the Golf Pro	05:24:03p	20	Rosen, and I believe he's attending a deposition	05:27:07p
21	article was available prior to the cover day	05:24:06p	21	today.	05:27:10p
22	and concluded based on that analysis that	05:24:12p	22	Q. Not in this case?	05:27:11p
23	there was none.	05:24:14p	23	A. Yes, I believe he's downstairs,	05:27:12p
24	Q. Okay. Do you know of any	05:24:15p	24	two stories down.	05:27:14p

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<p>1 Q. Have you spoken to him about 05:27:17p</p> <p>2 this? 05:27:18p</p> <p>3 A. I have spoken to him and said I 05:27:20p</p> <p>4 don't have my computer with me. He did not have 05:27:24p</p> <p>5 his computer with him either, so... 05:27:27p</p> <p>6 MR. COLLINS: Okay, counsel and I 05:27:31p</p> <p>7 will have to talk about that, but we 05:27:32p</p> <p>8 can in a moment off the record. 05:27:33p</p> <p>9 BY MR. COLLINS: 05:27:37p</p> <p>10 Q. Apart from what you have said 05:27:37p</p> <p>11 today and apart from what is in your rebuttal, 05:27:40p</p> <p>12 do you have any further criticisms of Miller's 05:27:43p</p> <p>13 report? 05:27:46p</p> <p>14 A. I think my rebuttal report is a 05:27:52p</p> <p>15 fair summary of the criticisms that I had of 05:27:59p</p> <p>16 Mr. Miller's report. 05:28:02p</p> <p>17 Q. Apart from what you put in both 05:28:03p</p> <p>18 reports and apart from what you said today, are 05:28:07p</p> <p>19 you going to opine on anything else in this 05:28:10p</p> <p>20 case? 05:28:13p</p> <p>21 A. I think the deposition questions 05:28:17p</p> <p>22 and my expert reports have covered the general 05:28:24p</p> <p>23 areas that I expect to opine on. 05:28:27p</p> <p>24 Q. Are there any specific areas 05:28:31p</p>	<p>1 (A recess was had from 5:30 p.m. 05:30:13p</p> <p>2 to 5:36 p.m.; and then the proceedings 05:30:13p</p> <p>3 continued as follows:) 05:30:13p</p> <p>4 MR. COLLINS: No further 05:36:42p</p> <p>5 questions. Thank you. 05:36:43p</p> <p>6 (Deposition concluded at</p> <p>7 5:36 p.m.)</p> <p>8 ----0----</p> <p>9</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p>
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<p>1 that have not yet been covered? 05:28:33p</p> <p>2 A. I don't -- as I sit here, I 05:28:36p</p> <p>3 can't think of anything. I can't represent to 05:28:41p</p> <p>4 you that there is not some specific issue or 05:28:43p</p> <p>5 fact that I might not utilize, but it's a 05:28:49p</p> <p>6 summary of the issues that I will address -- I 05:28:55p</p> <p>7 expect to address in my testimony. 05:28:58p</p> <p>8 There is one, actually, and 05:29:01p</p> <p>9 that has to do with in reviewing my report, I 05:29:06p</p> <p>10 became aware that in some sense -- in certain 05:29:16p</p> <p>11 instances I state there are no Section 11 05:29:23p</p> <p>12 damages, and I make reference to an analysis 05:29:30p</p> <p>13 of Section 11 damages, and just for the sake 05:29:35p</p> <p>14 of completeness, I was referring to -- because 05:29:38p</p> <p>15 Section 11 and Section 12 damages are computed 05:29:44p</p> <p>16 in the same way, that I was covering under 05:29:48p</p> <p>17 that umbrella both Section 11 and Section 12. 05:29:54p</p> <p>18 Q. That's fine. 05:29:59p</p> <p>19 We're going to break. While we 05:30:00p</p> <p>20 are on the break, if you can think about 05:30:00p</p> <p>21 whether there is anything else you expect to 05:30:02p</p> <p>22 opine on, I would appreciate it. 05:30:04p</p> <p>23 A. Sure. 05:30:07p</p> <p>24 MR. COLLINS: Let's break. 05:30:07p</p>	<p>1 C E R T I F I C A T E</p> <p>2 I, Pamela Harrison, a Notary</p> <p>3 Public, do hereby certify:</p> <p>4 That CHRISTOPHER M. JAMES, the</p> <p>5 witness whose testimony is hereinbefore set</p> <p>6 forth, was duly sworn by me and that such</p> <p>7 testimony given by the witness was taken down</p> <p>8 stenographically by me and then transcribed.</p> <p>9 I further certify that I am not</p> <p>10 related to any of the parties to this</p> <p>11 action by blood or marriage, and that I am in</p> <p>12 no way interested in the outcome of this</p> <p>13 matter.</p> <p>14</p> <p>15</p> <p>16 Pamela Harrison</p> <p>17 Registered Merit Reporter</p> <p>18 Certified Realtime Reporter</p> <p>19 CSR-NJ # 30XI00221600</p> <p>20 Notary Public</p> <p>21 Date: August 11, 2006</p> <p>22</p> <p>23 (The foregoing certification of</p> <p>24 this transcript does not apply to any</p> <p>reproduction of the same by any means, unless</p> <p>under the direct control and/or supervision of</p> <p>the certifying shorthand</p> <p>reporter.)</p>

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EXHIBIT B

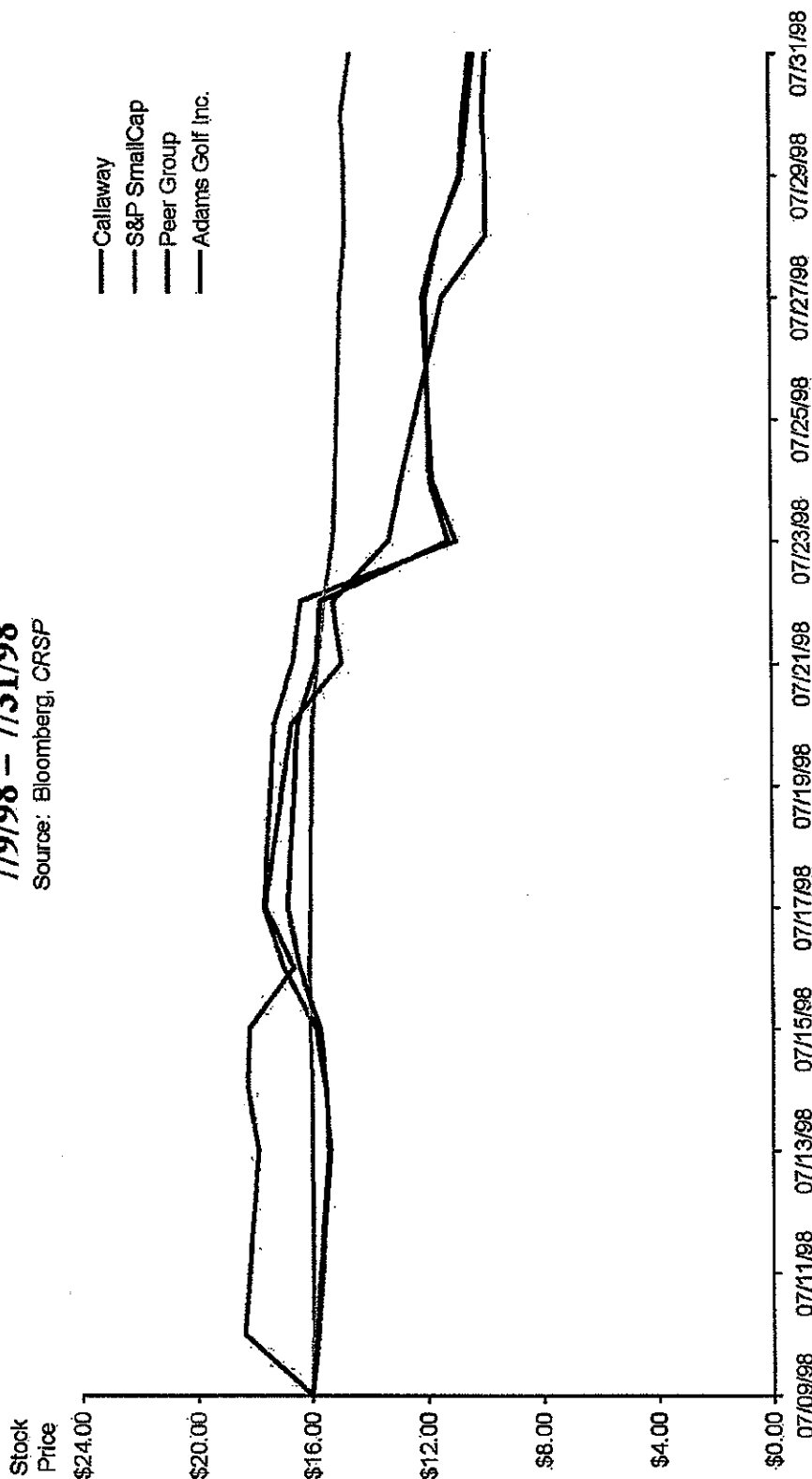


Adams Golf Inc.

Closing Stock Price vs. Callaway, Miller's Peer Group and S&P SmallCap Index

7/9/98 – 7/31/98

Source: Bloomberg, CRSP



Note: Callaway, Miller's Peer Group and the S&P SmallCap Index are pegged to \$16 on 7/9/98, as \$16 was the IPO stock price of Adams Golf, at which it began trading on 7/10/98.

Analysis of Peer Performance Around July Purchase Order Dates

Source: Mr. Miller's Rebuttal Report; CRSP; Bloomberg

Purchase Orders	Date	CRSP ADGO Return	CRSP Callaway Return	ADGO Callaway- Adjusted Return	Miller Peer Group Return	ADGO Miller Peer Group- Adjusted Return
7/21 & 22/98						
1 Day Prior	07/20/98	-5.3%	-2.1%		-2.1%	
Purchase Order Date	07/21/98	-10.5%	-3.7%		-4.1%	
Purchase Order Date	07/22/98	2.1%	-1.6%		-0.8%	
1 Day After	07/23/98	-12.7%	-32.9%		-28.2%	
2 Days After	07/24/98	-3.3%	7.4%		5.6%	
Cumulative		-27.0%	-33.2%	6.3%	-29.4%	2.4%
7/29/1998						
1 Day Prior	07/28/98	-13.1%	-4.4%		-3.8%	
Purchase Order Date	07/29/98	0.0%	-7.0%		-6.4%	
1 Day After	07/30/98	0.9%	-2.0%		-1.1%	
2 Days After	07/31/98	-0.9%	-2.0%		-2.0%	
Cumulative		-13.1%	-14.7%	1.6%	-12.7%	-0.4%



MJ 0561

EXHIBIT C

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

- - -

IN RE ADAMS GOLF, INC. : CONSOLIDATED
:
SECURITIES LITIGATION : C.A. No. 99-371 KAJ

Friday, August 11, 2006

Oral deposition of R. ALAN MILLER, taken pursuant to notice, was held at the offices of AKIN, GUMP, STRAUSS, HAUER AND FELD, LLP, 590 Madison Avenue, 18th Floor, New York, New York 10022-2524 commencing at 8:50 a.m. on the above date, before Beth A. Barkocy, Certified Shorthand Reporter and Notary Public.

- - -

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R. ALAN MILLER

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1 opinions on negative loss causation spring
2 primarily from the review of Mr. James' work
3 and the other information that I provide in
4 my reports on that topic, and the adequacy of
5 due diligence opinions, I actually don't
6 recall what the complaint said about that but
7 those opinions I formed based upon my review
8 of the information that I've seen and that
9 I've listed here. I think that probably
10 covers it.

11 BY MR. BESSETTE:

12 Q. You're familiar with event studies,
13 correct?

14 MR. LEWIS: Objection to form.

15 THE WITNESS: Yeah, I'll say correct
16 and note that that word is used differently,
17 perhaps, by different people, but I am
18 familiar with that term generally and with at
19 least several uses of it.

20 BY MR. BESSETTE:

21 Q. What is beta in connection with an
22 event study?

23 MR. LEWIS: I'm sorry?

24 MR. BESSETTE: Beta.

25 THE WITNESS: Beta actually

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1 sometimes -- a beta measurement typically
2 measures the degree of volatility that a
3 particular stock experiences compared with
4 some base measurement statistic like an index
5 or market index or an industry index or
6 something like that; that is, it measures
7 what percent, for example, a particular stock
8 will move when an index moves 1 percent, is
9 one way to explain it. That sometimes finds
10 its way into event study work and sometimes
11 doesn't.

12 BY MR. BESSETTE:

13 Q. Are there, in your experience, types
14 of stocks that are more sensitive to market movements
15 than other types of stocks, I guess having a higher
16 beta?

17 MR. LEWIS: Objection, vague and
18 overbroad.

19 THE WITNESS: Sure. There are
20 individual stocks -- let me start over.

21 Individual stocks react differently
22 to market movements as a general matter, and
23 there are probably ways to categorize certain
24 types of stocks that move more volatilly than
25 other types of stocks.

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1 BY MR. BESSETTE:

2 Q. Let me ask you to look at what's
3 been marked as Exhibit-336 (indicating). This is the
4 expert report of Chris James. I believe you've seen
5 that?

6 A. Yes.

7 Q. At Paragraph 17 to 22 of Dr. James'
8 report --

9 MR. LEWIS: Do you have an extra?

10 MR. BESSETTE: Do you have Chris
11 James' report? I'm not going to get detailed
12 on it.

13 MR. LEWIS: Then I will lean over.

14 MR. BESSETTE: I have copies for you
15 of everything else.

16 BY MR. BESSETTE:

17 Q. In those paragraphs, Dr. James sets
18 out a methodology for an event study. Are you
19 familiar with that general methodology as he has set
20 forth in those paragraphs?

21 MR. LEWIS: Objection to form.

22 You're talking about --

23 MR. BESSETTE: Seventeen to 22 is
24 where he sets out the general methodology.

25 MR. LEWIS: The question is whether

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1 he is familiar that that's what James did or
2 whether --

3 BY MR. BESSETTE:

4 Q. I want to know if you're familiar
5 with the general methodology of an event study as
6 Dr. James has laid it out in those paragraphs.

7 MR. LEWIS: Same objection, form,
8 foundation, and vagueness.

9 THE WITNESS: Did you say 17 to 21?

10 BY MR. BESSETTE:

11 Q. Twenty-two.

12 MR. LEWIS: After he answers this
13 question, would it be a good time for a
14 break?

15 MR. BESSETTE: Sure.

16 THE WITNESS: Could I have the
17 question back?

18 BY MR. BESSETTE:

19 Q. I'll restate it.

20 Now that you've reviewed
21 Paragraphs 17 to 22 of Dr. James' report, are you
22 familiar with the general methodology of an event
23 study as he has laid out in those paragraphs?

24 MR. LEWIS: Same objection to form,
25 foundation, vagueness, and overbreadth.

11 (Pages 38 to 41)

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<p>1 THE WITNESS: I am familiar with 2 event studies and the methodology of 3 conducting event studies, including in, I 4 suppose, the broadest sense, the methodology 5 suggested by Mr. James here in the sense of 6 using a regression analysis based tool in 7 order to measure statistical significance and 8 those sorts of things. 9 Having said that, these paragraphs 10 set forth a general description of that tool 11 or of the use of that tool but leave open 12 gaping sorts of questions as to the 13 application and construction of the tool and 14 analysis, which problems and questions 15 persist, then, as Mr. James proceeds 16 thereafter to apply what he describes here in 17 a general way. 18 MR. BESSETTE: I've got a line of 19 questions here, so we might as well take a 20 break. Thank you. 21 (Recess.) 22 BY MR. BESSETTE: 23 Q. Mr. Miller, leaving aside your 24 reservations about the application of the event study 25 as described by Mr. James in Paragraphs 17 to 22, you</p>	<p>1 Go ahead; do the best you can. 2 Also, I think that misstated his 3 testimony a little bit. 4 Answer it anyhow. 5 THE WITNESS: I'm okay on 17, 18, 6 and 19. On 20, the problem I have here is 7 that the second sentence says the relatively 8 smaller movements on other days are typically 9 the result of normal volatile trading 10 activity and do not represent the pricing 11 dash effects of material firm-specific 12 information semicolon such small movements 13 are not statistically distinguishable from 14 zero firm-specific movement. 15 I think that assigns a level of 16 meaning and certainty to the term 17 statistically significant that doesn't 18 comport with the real world; that is, I don't 19 argue that this interpretation is incorrect 20 from a purely academic standpoint and from 21 the interpretation of the meaning of those 22 terms by some pure academicians, at least in 23 recent years. The problem is in applying 24 this methodology for the purposes described 25 in the preceding three paragraphs, it implies</p>
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<p>1 agree that's an accurate description of the general 2 methodology of an event study; is that right? 3 MR. LEWIS: Objection to the form 4 and foundation. 5 Excuse me for a moment. 6 (Discussion held off the record.) 7 THE WITNESS: The reason I'm taking 8 so long with this question is that there's a 9 lot of extraneous information in these 10 paragraphs that's like commentary as opposed 11 to simply setting forth how an event study 12 might be structured or established or 13 conducted or something like that, that I 14 don't think are either necessary to the event 15 study or, in fact, may be wrong, were overly 16 assumptive about things that an event study 17 can tell you. That's why I'm thinking more 18 about this than maybe you intended. I'll let 19 it go with that. 20 BY MR. BESSETTE: 21 Q. As between Paragraphs 17 to 22, what 22 in those paragraphs do you find either extraneous to a 23 description of an event study or, I think you said, 24 maybe even wrong? 25 MR. LEWIS: Compound.</p>	<p>1 that it has these real world uses and effects 2 when the bright line nature of the 3 statistically significant factor is 4 artificial and, in fact, smaller movements 5 can occur as a result of information reaching 6 the market which might be weaker sorts of 7 information which might reach the market in 8 ways that are less distinct than a Wall 9 Street Journal announcement or Dow Jones 10 Business Wire announcement, for example, or 11 which might simply have less import than an 12 announcement that causes a reaction to rise 13 above the statistically significant 14 threshold, so I have that sort of problem 15 with that paragraph. 16 BY MR. BESSETTE: 17 Q. Before you move on to another 18 paragraph, is there anything more you want to say 19 about that sentence in Paragraph 20? 20 MR. LEWIS: Objection to form. 21 THE WITNESS: This also implies a 22 one-day, or less, event window, which is the 23 term that's used in event studies as well, 24 and that is artificial as well. It's also 25 not necessarily standard even in the academic</p>

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1 application of event studies. Event windows
2 typically should be designed to comport to
3 the events being studied, and 9:30 to four
4 o'clock on a particular day is an artificial
5 window which may or may not have any meaning
6 in a particular case.

7 Event window lengths of longer or --
8 well, or arguably shorter periods are
9 appropriate in some cases and there's no
10 reason to think that a consistent event
11 window length applied over a period of time
12 makes any sense; that is, event windows may
13 change in size during a study period to
14 reflect the source of the news, the type of
15 news, how it is transmitted to market
16 participants, and those sorts of factors.

17 All these things are discussed in some fairly
18 standard works on event study construction.

19 There's one by Dunbar and Tabak that
20 refers to these types of factors. There's
21 one by Mackinley, and I think it may be just
22 by Mackinley; he often writes with several
23 other people, but I think it might be just
24 him. There's, I think, another one with
25 Tabak and three other people from National

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1 Economic Research Associates. These sorts of
2 articles describe in more detail various
3 steps to go about performing event studies
4 but address issues like event window length,
5 threshold for statistical significance, and
6 those kind of factors I've referred to here.

7 I think that might take care of 20.

8 BY MR. BESSETTE:

9 Q. Before we move on, on 20, just to
10 make sure I understand, to boil, I guess, the first
11 issue down, it's your opinion that relatively small
12 price movements that are not statistically significant
13 in a particular event study analysis could represent
14 the pricing effects of material firm-specific
15 information in your opinion based on the real world,
16 and that's why you take objection to this statement;
17 do I understand that right?

18 MR. LEWIS: Objection to form.

19 THE WITNESS: Yeah, that's part of
20 what I said.

21 BY MR. BESSETTE:

22 Q. The part after the semicolon, these
23 small -- relatively small, not statistically
24 significant price movements based on a particular
25 event study, are they or are they not distinguishable

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1 from zero --

2 MR. LEWIS: Objection to form.

3 BY MR. BESSETTE:

4 Q. -- in an event study?

5 MR. LEWIS: Objection to form and
6 foundation.

7 BY MR. BESSETTE:

8 Q. Did I not frame that right?

9 A. I'm wrestling with that.

10 In an event study as academically
11 defined in recent years by many academicians, once you
12 set your threshold for statistical significance, any
13 movement underneath that is viewed as not
14 statistically significant and therefore
15 indistinguishable from zero in its effect.

16 I think in the event study world of
17 pure academia, that is probably correct. In the real
18 world, there's no reason for that to be correct
19 because there are too many subjective assumptions in
20 establishing the threshold, the length of the event
21 window, and then those kinds of things I referenced
22 earlier, to make that true; that is, taking Mr. James'
23 work, he sets a threshold of 95 percent confidence
24 level, ignoring the impact of the relatively low
25 R-squared factor in the first place, says that that

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1 translates into a 12.3 percent stock price movement
2 and sets that as the threshold for statistical
3 significance, underneath which anything is essentially
4 equal to zero.

5 Simply by looking at his chart, you
6 can see that that doesn't make much sense in the real
7 world suggesting that an 11 percent movement in stock
8 price is indistinguishable from zero, A, on its face,
9 B, not considering the source or type of information,
10 C, assuming that all information affecting market
11 participants' view of a company's earning prospects is
12 equal or is subject to the same minimum threshold, D,
13 ignoring that the 95 percent confidence level is one
14 choice that is made.

15 Ninety percent confidence levels are
16 often used by many practitioners of event study
17 methodology, and at that, there's no reason, 90 or 95
18 or wholly, other numbers or not, except academic
19 convention. It doesn't deal with the possibility of
20 seepage or leakage-type information in which you'd
21 have to have multiple day event windows which are
22 essentially additive arithmetically; they're not quite
23 additive statistically but they are essentially
24 additive in their effect. I think those are some of
25 the issues anyway that relate to this topic.

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1 Q. If I understand correctly, your
2 issue, I guess, with event studies not being
3 appropriate in the real world is because there are too
4 many subjective factors like what confidence level
5 you're going to use, what event window is going to be
6 used, so is it fair to say that because of those
7 subjective elements, you don't think that an event
8 study methodology accurately captures all
9 firm-specific information translated into price
10 movements?

11 MR. LEWIS: Objection to form.

12 BY MR. BESSETTE:

13 Q. You're using statistical
14 significance because there are too many variables?

15 MR. LEWIS: Objection to form,
16 overbroad; misstates his answer, lack of
17 foundation.

18 BY MR. BESSETTE:

19 Q. Do I have that right, generally?

20 A. Yeah, I think partially so. I think
21 I'd say this, though: I don't have any problem with
22 the use of event studies and we use them all the time
23 to do our work, and I'm using event study -- I don't
24 know whether that's -- whether to make it uppercase or
25 lower case -- in the broader sense of putting all of

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1 the information that you think is relevant onto a
2 template or piece of paper, a chart, a format, that
3 contains significant pieces of information to review
4 along with the information to make some sorts of
5 determinations that we're talking about making.
6 That's a process in a much broader sense that I think
7 is fine.

8 Using the event study as narrowly
9 defined in the purely academic world and including the
10 results of a regression analysis with fixed event
11 windows with artificially set thresholds, ignoring,
12 for example, the factor of trading volume, which most
13 academic event studies ignore, ignoring nonprinted
14 electronically data-retrievable sources of information
15 that probably existed at the time, and those sorts of
16 things, are some of the problems I have with the
17 narrower academically-oriented event studies as
18 described here and used by Mr. James.

19 In fact, if the event study in the
20 much broader sense is used properly and does include
21 all of the information that affects pricing, which is,
22 on a practical basis, very difficult to do, but if it
23 does that, includes trading volume data and stock
24 price movement data, the movement of comparable stock
25 prices, comparable indices, market indices and all

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1 those other factors, and then can be reviewed in a
2 flexible way to allow for multiple event window and
3 flexible event window review with no preset
4 thresholds, I think it can be a very useful tool and
5 we use it all the time for that.

6 Q. Mackinley, to whom you referred,
7 you're familiar that he uses event studies to test
8 whether stock reactions are different from zero for a
9 particular event window?

10 MR. LEWIS: Objection to form and
11 foundation.

12 THE WITNESS: Yeah, I think part of
13 Mackinley's work -- I'm trying to remember if
14 it's in the same article or not, and I can't.

15 In part of Mackinley's work, he does
16 make that definitional use of the event study
17 setting the academic conditions of threshold
18 and event window length and then makes the
19 statement, I believe, something to the effect
20 that anything under the threshold is
21 statistically the same as zero, or something
22 like that.

23 That's consistent with the academic
24 application of the tool, but Mackinley also,
25 I believe, in discussing how to do the event

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1 studies, talks about selection of window,
2 talks about selection of base period, which
3 is a major issue I've not discussed yet but
4 which also factors into all this and which is
5 also covered in the Dunbar and Tabak article,
6 and those are important factors that are not
7 covered in this description and which
8 Mr. James deviates from in his application of
9 the event study methodology going forward;
10 that is, all the practitioners say, and
11 Mr. James says, that the first step in
12 creating the Formula A relationship between
13 the variables is to use a clean base period
14 or control period or estimation period, I
15 think are the terms I've seen used to
16 describe it, to establish the relationship
17 between the variables.

18 Based on that, the predicted path of
19 the stock price or the dependent variable is
20 projected into the class period, the actual
21 stock price movement is then subtracted from
22 the predicted movement to determine what's
23 called a residual. That's tested against the
24 statistically significant threshold and the
25 academic version of the event study to

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1 determine whether you have a meaningful
2 movement or not under that definition.

3 In the case of an IPO, of course,
4 you can't do that because there's no clean
5 base period by definition.

6 BY MR. BESSETTE:

7 Q. Do you know what a rolling
8 regression is?

9 A. Yes.

10 Q. What is that?

11 A. It basically picks up from each
12 period -- we use day because it's commonly done in
13 days. It picks up from each day going forward and
14 eliminates the results of previous time periods. It's
15 an attempt to eliminate or -- I think it's an attempt,
16 if I remember this correctly, to eliminate
17 autocorrelation.

18 MR. LEWIS: Before you go on, I want
19 to raise something I should have raised at
20 the beginning of the deposition. Could you
21 identify your colleagues here for the record?

22 MR. BESSETTE: Sure. We have Amir
23 Rozen of Cornerstone with us, along with
24 counsel for the underwriters, who should, I
25 guess, identify themselves.

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1 MR. LEWIS: No, that's fine. I was
2 just wondering whether Mr. Rozen had actually
3 done any of the work on the James' report
4 because I thought part of our --

5 MR. BESSETTE: No.

6 MR. LEWIS: Okay.

7 BY MR. BESSETTE:

8 Q. The use of a rolling regression, can
9 that be used to sort of make up for a base period as
10 you described it, sort of a substitute?

11 MR. LEWIS: Objection to form.

12 THE WITNESS: That's an interesting
13 factor. If you -- it doesn't get you there
14 and it probably corrects, to some degree, for
15 not having a clean base period. I think
16 because you're at a higher base level than
17 you would otherwise be, assuming a class
18 period that contains fraud and an inflated
19 stock price, so that the application of the
20 threshold gets you too high a trigger point.
21 There's still problems with not having a
22 correct base period. It probably does
23 correct to some degree for it, I think, but
24 I'm sure not completely.

25 BY MR. BESSETTE:

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1 Q. Did Dr. James use a rolling
2 regression in his work?

3 A. I believe he did do a -- one of his
4 alternatives involved a rolling regression. As I
5 recall, his results weren't very different with the
6 rolling regression, if I recall that correctly.

7 Q. Let's go back to event studies for a
8 second. You made reference several times to the
9 academic version, so why don't we just call the
10 academic version of the event study and then a real
11 world, which you've described as well.

12 A. Sure.

13 Q. Certainly, there are legions of
14 published peer-reviewed articles on the academic
15 version of the event study and its use on measuring
16 stock price movement, right?

17 MR. LEWIS: Objection to form.

18 THE WITNESS: There are a lot. It
19 certainly is done. The procedure is done
20 quite a lot in the finance field in academia
21 and, sure, there have been a lot of articles
22 involving the use of it.

23 We subscribe, for example, to at
24 least half a dozen finance-type journals,
25 Journal of Finance, Journal of Financial

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1 Economics, Review of Financial Studies, those
2 kinds of things that often have articles in
3 them, very often containing academic event
4 study work.

5 BY MR. BESSETTE:

6 Q. Are there any peer-reviewed articles
7 that you're aware of that use the real world version
8 of the event study as you've described it here today
9 to measure stock price movements?

10 MR. LEWIS: Object to the form and
11 foundation.

12 THE WITNESS: The principles of the
13 real world approach are set forth in the
14 articles I referenced previously.

15 BY MR. BESSETTE:

16 Q. From NERA?

17 A. Two from NERA and, to some degree,
18 Mackinley's article, the one article, at least, by
19 Mackinley. Mackinley has written a lot of stuff. At
20 least, I think, the one article that I think he may
21 have been the sole author of discusses having a clean
22 base period, having an appropriate event window
23 length.

24 NERA particularly uses several
25 different levels of threshold for statistical

15 (Pages 54 to 57)